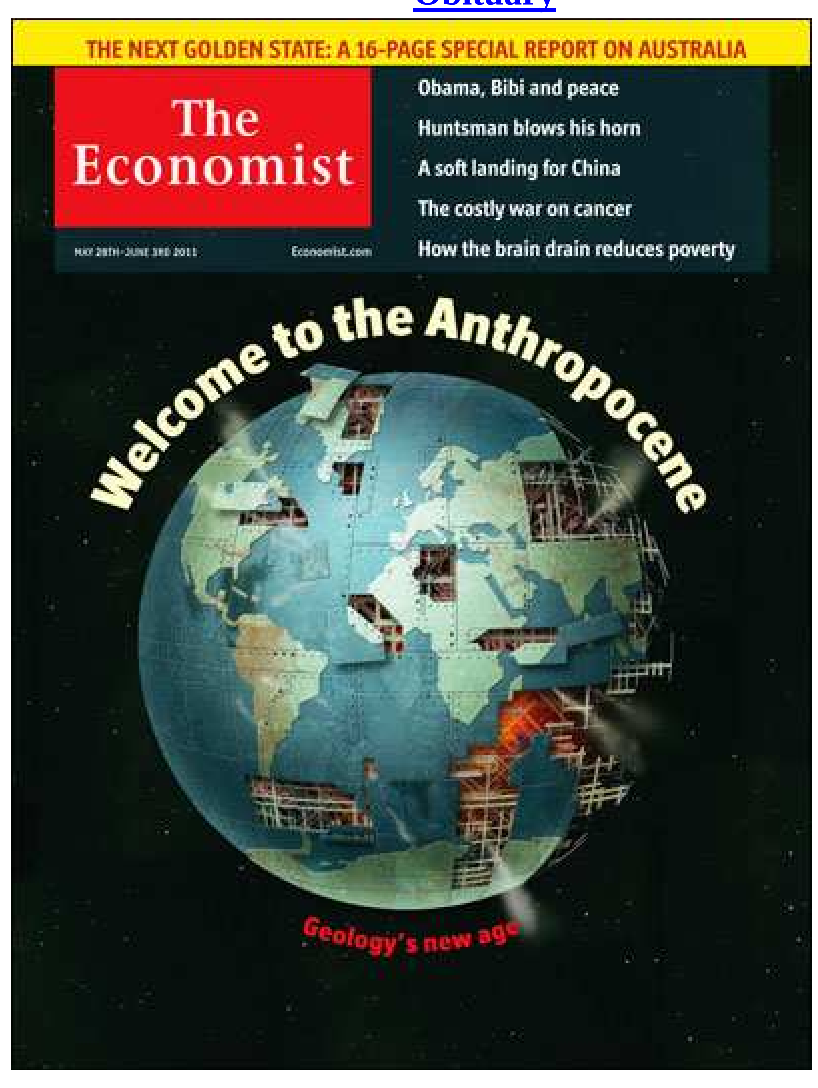
The Economist

May 28th, 2011



Politics this week



A small group of terrorists stormed a heavily protected military base in Karachi and held a part of it during an 18-hour firefight. Perhaps as few as six attackers were able to penetrate the base, wreck two aircraft and kill at least ten personnel; two of them escaped. The **Pakistani Taliban** claimed they did it in retaliation for the killing of Osama bin Laden. See article

The Tokyo Electric Power Company admitted that nuclear fuel in three of the reactors at its Fukushima power plant melted soon after the earthquake and tsunami that struck **Japan** on March 11th. The disclosure implies that the plant released much more radiation than TEPCO had first estimated.

China acknowledged "urgent problems" afflicting the Three Gorges Dam. The State Council noted worrying damage to the surrounding region's water supply and geology as well as to the livelihoods of the 1.3m people its construction had displaced. An audit revealed dozens of financial irregularities. An additional 50 billion cubic metres of water will be released downstream by the dam this season, as the Yangzi basin suffers its worst drought in 50 years.

Kim Jong Il was spotted touring eastern China on his personal armoured train, in what may be his third such trip in a year (both North Korea and China keep mum about the details). **North Korea** has a number of reasons to shore up its relationship with China, not least the threat of food shortages this year and the eventual transition of power from Mr Kim to his son, Kim Jong Un.

At a trial in Chicago David Headley, a Pakistani-American who pleaded guilty to conspiring in the terrorist assault on **Mumbai** in November 2008, testified that Pakistan's Inter-Services Intelligence agency had provided financial and logistical support to the group that carried out the attack.

An upset upstate

The **Democrats** won an election to fill a vacant congressional seat in conservative upstate New York. The district had been held by the Republicans, but Kathy Hochul, the Democratic candidate, focused her campaign on arguing against the recent Republican proposal to overhaul Medicare. The tea-party candidate was a factor in the election, taking 9% of the vote. See article

Mitch Daniels, the Republican governor of Indiana, decided not to run for president. His supporters hoped the former White House budget director would strongly challenge Barack Obama over his plans for reducing the government deficit. See article



The most deadly single **tornado** in America since 1947 hit Joplin, Missouri, killing at least 125 people. Around 900 were injured and more were missing.

A judge ruled that Jared Loughner, the suspect in January's shooting and wounding of Gabrielle Giffords, a congresswoman from **Tucson**, was mentally unfit to stand trial, in effect suspending the legal proceedings against him. Mr Loughner will remain in federal detention as he undergoes psychiatric treatment.

All the talk in Washington

In his biggest set-piece speech on the Middle East for two years, Barack Obama celebrated the Arab spring and promised financial aid to countries that sought to build a democracy. But he annoyed **Israel's** prime minister, Binyamin Netanyahu, by saying that Israel's borders with a **Palestinian** state should be based on the 1967 line with swaps. This, in Mr Netanyahu's view, would make them "indefensible". See article

NATO stepped up its air attacks on Tripoli, the **Libyan** capital, and deployed Apache attack helicopters. Russia called this a "gross violation" of the United Nations Security Council resolution authorising force to protect civilians. See article

Prosecutors in **Egypt** announced that the former president, Hosni Mubarak, and his two sons would be tried on a series of charges that might include murder.

Scores of **Yemenis** were killed in clashes with security forces, as President Ali Abdullah Saleh continued to reject a deal, brokered by the Saudi-led Gulf Co-operation Council, which would require him to leave office within 30 days, with a guarantee of immunity from prosecution.

North **Sudanese** troops occupied the disputed town of Abyei along the border with the south, causing 40,000 people to flee. See article

A rumble about the jungle

After months of debate the lower house of **Brazil's** Congress approved a new forestry code, which reduces the area of protected land in river valleys, exempts small farmers from having to replant deforested land and grants them an amnesty for deforestation before July 2008. On the eve of the vote, two environmental activists were murdered in the Amazon state of Para.

Manuel Zelaya, who was ousted as president of **Honduras** in a coup in 2009, signed an agreement with his replacement, Porfirio Lobo, under which he can return home without fear of arrest. The agreement, mediated by Colombia and Venezuela, paves the way for Honduras to be readmitted to the Organisation of American States. See article

Colombia's Senate approved an ambitious government bill that aims to compensate victims of violence and return land seized from displaced people. See article

The Spanish spring

Spain's ruling Socialists took a thumping in regional and municipal elections, falling almost ten percentage points behind the opposition conservative People's Party and losing its traditional strongholds of Barcelona and Seville. The elections followed spontaneous youth demonstrations in Madrid and other big cities, calling for political and economic reforms. See article

Five days of opposition protest in Tbilisi, the **Georgian** capital, ended in violence when riot police closed in on 1,000 demonstrators who had occupied a viewing stand ahead of a military parade. A policeman and a protester were killed by a car fleeing the scene.



Barack Obama visited Europe, sipping Guinness in the village of a distant ancestor in Ireland before crossing the Irish Sea to swap pleasantries with the queen and reassure Britain that its "special relationship" with America remained solid. A G8 summit in Deauville, France, was next on the agenda. The president was due to finish his tour in Poland. See article

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Business this week

Christine Lagarde, France's finance minister, launched her official bid to succeed Dominique Strauss-Kahn as managing director of the IMF. Ms Lagarde is the front-runner for the position. But there was growing disquiet in the developing world over the convention that only Europeans should be considered for the fund's top job, with the IMF representatives of Brazil, Russia, India, China and South Africa issuing a joint statement on the matter. Ms Lagarde acknowledged their concerns, but said that being European should be neither a "handicap, nor an asset" when assessing her qualifications. See article

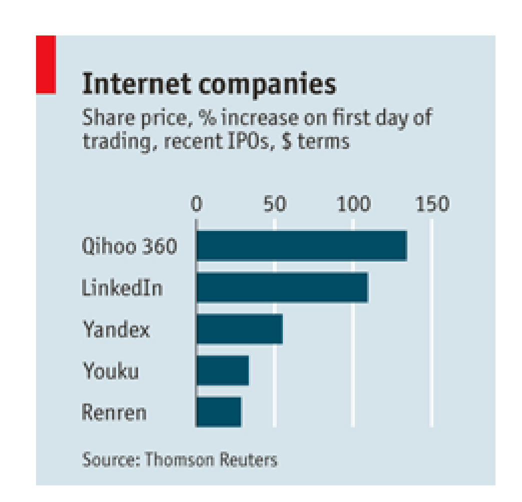
The American government reaped a small profit from the first sale of its shares in **American International Group** since bailing out the insurer in 2008. The Treasury sold 200m shares and AIG a further 100m in the offering, which was priced at $29 a share, just above the Treasury's break-even point of $28.73. It hopes to sell the remainder of its stake, now reduced to around 77%, over the next two years.

With petrol prices high...

America's Commodity Futures Trading Commission charged an oil-trading firm, two of its affiliates and two traders with attempting to **manipulate oil prices** in 2008. The regulator alleges that the defendants purchased substantial positions in the physical market for West Texas Intermediate oil to give the impression of a shortage, and at the same time bought oil futures to profit from the subsequent rise in prices. It is only the second case brought by the CFTC in its three-year-long investigation into oil-price speculation.

BP had some good news of sorts when Mitsui agreed to contribute $1.1 billion towards the cost of last year's oil spill in the Gulf of Mexico. The Japanese conglomerate held a 10% stake in the stricken Macondo well. It is the first time that one of BP's partners in the project has recognised that the oil firm was not the only culprit, though Mitsui agreed to settle for less than half of what BP was asking.

David Einhorn, an influential hedge-fund manager, called for Steve Ballmer's resignation as chief executive of **Microsoft**. Mr Ballmer has come under increasing pressure from investors lately for the feeble performance of Microsoft's share price.



Yandex, described as "Russia's Google", made its stockmarket debut on NASDAQ, the latest in a string of big initial public offerings in America by domestic and foreign internet companies. On May 19th **LinkedIn**, a networking site for professionals, saw its share price soar by 109% on its market entry. But with the shares of some recently floated tech companies, such as Renren, a Chinese firm, now trading for less than their issue prices, analysts have warned that the evidence is mounting of another tech bubble.

All that glisters is not gold

Glencore entered the FTSE 100 on its stockmarket debut in London. It also listed in Hong Kong. Though the Swiss-based commodities-trading company's IPO was eagerly awaited, its stock ended the first day's trading below its offer price of pound5.30 ($8.60).

Sony revealed an unexpected annual net loss of Â¥259 billion ($3.2 billion) for the year to March 31st, mostly because it wrote off deferred tax credits. Operating profit at the consumer-electronics company rose. Sony also forecast that the earthquake that hit Japan on March 11th would cost it around Â¥150 billion this year because of disruption to its supply chain. The recent hacking of its PlayStation Network is expected to cost a fortune. See article

Square, a mobile-commerce company run by Jack Dorsey, one of Twitter's founders, unveiled a payment system for retailers that replaces **cash registers with iPads**, which can sync with an app on customers' smartphones. Square's app is a rival to the systems being developed that use similar Near-Field Communication pay terminals. See article

Some followers of the Falun Gong spiritual movement filed a lawsuit in San Jose that accuses **Cisco** of helping China to construct a network surveillance system that tracked its members and Chinese dissidents. The allegations have surfaced before, in a Senate hearing. Cisco insists that there is "no basis" for the legal action and that it does not customise its products to "facilitate censorship or repression".

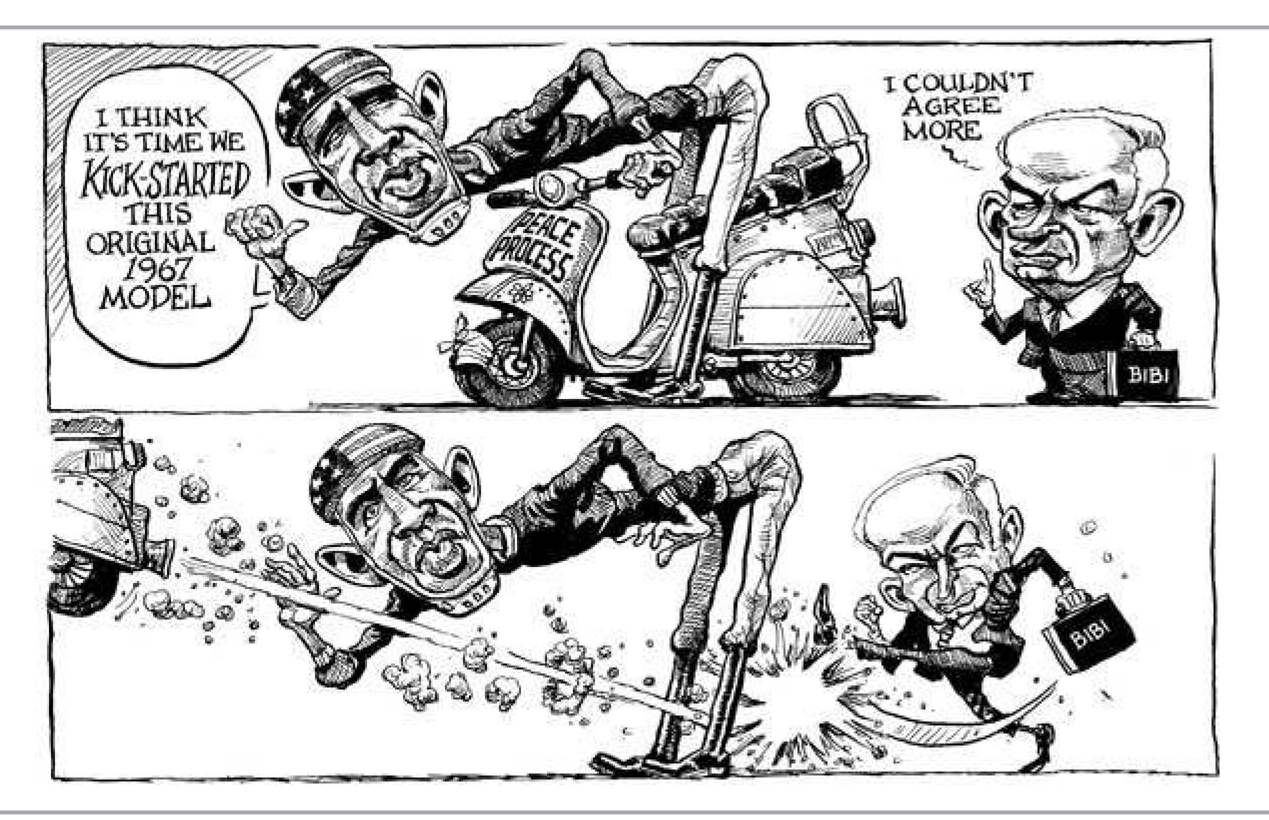
Standard & Poor's lowered its credit outlook for **Italy** from stable to negative. The main Italian stockmarket swooned.

El Gordo

The Spanish government signalled that it planned to go ahead with a plan to privatise the national **lottery**, which would create the world's biggest listed gambling company. The sale of 30% of the company that runs the lottery could fetch up to euro7.5 billion ($10.6 billion) and go towards reducing Spain's debt pile.

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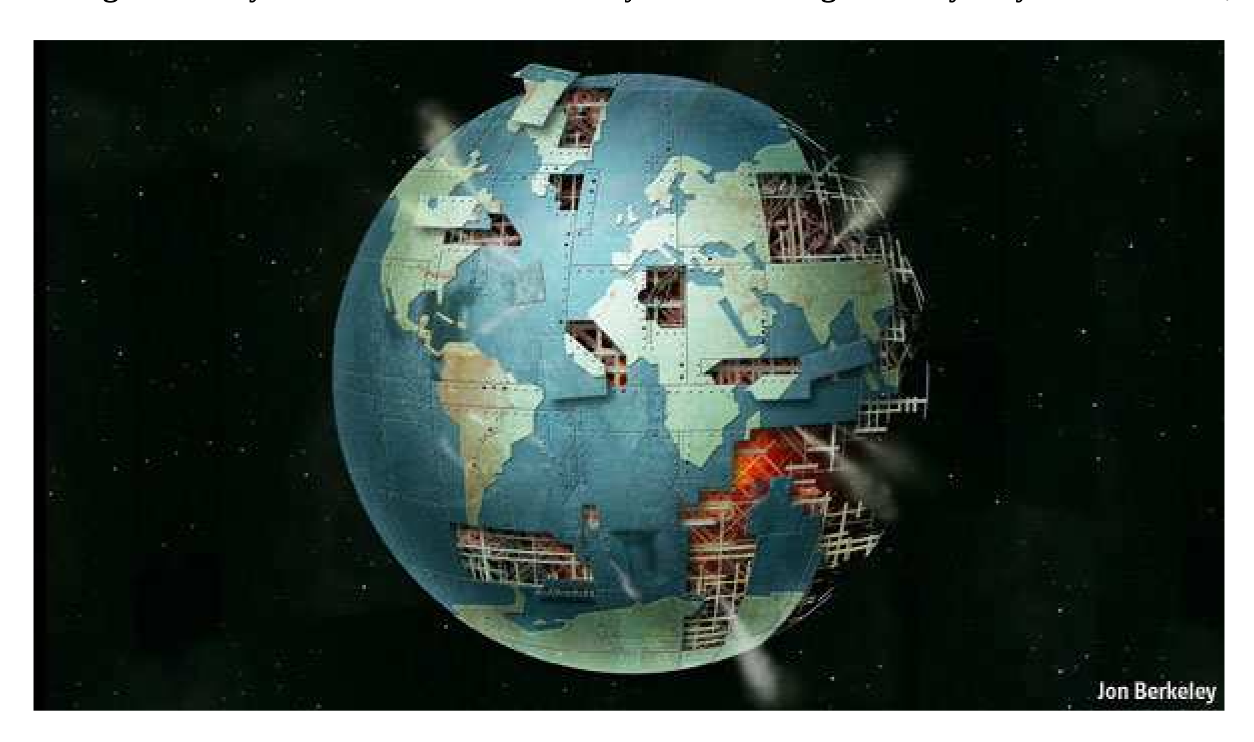
KAL's cartoon



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Welcome to the Anthropocene

Humans have changed the way the world works. Now they have to change the way they think about it, too



THE Earth is a big thing; if you divided it up evenly among its 7 billion inhabitants, they would get almost 1 trillion tonnes each. To think that the workings of so vast an entity could be lastingly changed by a species that has been scampering across its surface for less than 1% of 1% of its history seems, on the face of it, absurd. But it is not. Humans have become a force of nature reshaping the planet on a geological scale-but at a far-faster-than-geological speed.

A single engineering project, the Syncrude mine in the Athabasca tar sands, involves moving 30 billion tonnes of earth-twice the amount of sediment that flows down all the rivers in the world in a year. That sediment flow itself, meanwhile, is shrinking; almost 50,000 large dams have over the past half- century cut the flow by nearly a fifth. That is one reason why the Earth's deltas, home to hundreds of millions of people, are eroding away faster than they can be replenished.

Geologists care about sediments, hammering away at them to uncover what they have to say about the past-especially the huge spans of time as the Earth passes from one geological period to another. In the same spirit they look at the distribution of fossils, at the traces of glaciers and sea-level rises, and at other tokens of the forces that have shaped the planet. Now a number of these scientists are arguing that future geologists observing this moment in the Earth's progress will conclude that something very odd was going on.

The carbon cycle (and the global warming debate) is part of this change. So too is the nitrogen cycle, which converts pure nitrogen from the air into useful chemicals, and which mankind has helped speed up by over 150%. They and a host of other previously natural processes have been interrupted, refashioned and, most of all, accelerated (see article). Scientists are increasingly using a new name for this new period. Rather than placing us still in the Holocene, a peculiarly stable era that began only around 10,000 years ago, the geologists say we are already living in the Anthropocene: the age of man.

The new geology leaves all in doubt

What geologists choose to call a period of history normally matters little to the rest of mankind; tussles at the International Commission on Stratigraphy over the boundaries of the Ordovician era do not normally capture headlines. The Anthropocene is different. It is one of those moments where a scientific realisation, like Copernicus grasping that the Earth goes round the sun, could fundamentally change people's view of things far beyond science. It means more than rewriting some textbooks. It means thinking afresh about the relationship between people and their world and acting accordingly.

Thinking afresh is the easier bit. Too many natural scientists embrace the comforting assumption that nature can be studied, indeed should be studied, in isolation from the human world, with people as mere observers. Many environmentalists-especially those in the American tradition inspired by Henry David Thoreau-believe that "in wilderness is the preservation of the world". But the wilderness, for good or ill, is increasingly irrelevant.

Almost 90% of the world's plant activity, by some estimates, is to be found in ecosystems where humans play a significant role. Although farms have changed the world for millennia, the Anthropocene advent of fossil fuels, scientific breeding and, most of all, artificial nitrogen fertiliser has vastly increased agriculture's power. The relevance of wilderness to our world has shrunk in the face of this onslaught. The sheer amount of biomass now walking around the planet in the form of humans and livestock handily outweighs that of all other large animals. The world's ecosystems are dominated by an increasingly homogenous and limited suite of cosmopolitan crops, livestock and creatures that get on well in environments dominated by humans. Creatures less useful or adaptable get short shrift: the extinction rate is running far higher than during normal geological periods.

Recycling the planet

How frightened should people be about this? It would be odd not to be worried. The planet's history contains many less stable and clement eras than the Holocene. Who is to say that human action might not tip the planet into new instability?

Some will want simply to put the clock back. But returning to the way things were is neither realistic nor morally tenable. A planet that could soon be supporting as many as 10 billion human beings has to work differently from the one that held 1 billion people, mostly peasants, 200 years ago. The challenge of the Anthropocene is to use human ingenuity to set things up so that the planet can accomplish its 21st-century task.

Increasing the planet's resilience will probably involve a few dramatic changes and a lot of fiddling. An example of the former could be geoengineering. Today the copious carbon dioxide emitted to the atmosphere is left for nature to pick up, which it cannot do fast enough. Although the technologies are still nascent, the idea that humans might help remove carbon from the skies as well as put it there is a reasonable Anthropocene expectation; it wouldn't stop climate change any time soon, but it might shorten its lease, and reduce the changes in ocean chemistry that excess carbon brings about.

More often the answer will be fiddling-finding ways to apply human muscle with the grain of nature, rather than against it, and help it in its inbuilt tendency to recycle things. Human interference in the nitrogen cycle has made far more nitrogen available to plants and animals; it has done much less to help the planet deal with all that nitrogen when they have finished with it. Instead we suffer ever more coastal "dead zones" overrun by nitrogen-fed algal blooms. Quite small things, such as smarter farming and better sewage treatment, could help a lot.

For humans to be intimately involved in many interconnected processes at a planetary scale carries huge risks. But it is possible to add to the planet's resilience, often through simple and piecemeal actions, if they are well thought through. And one of the messages of the Anthropocene is that piecemeal actions can quickly add up to planetary change.

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Australia's promise

The next Golden State

With a bit of self-belief, Australia could become a model nation



IMAGINE a country of about 25m people, democratic, tolerant, welcoming to immigrants, socially harmonious, politically stable and economically successful; good beaches too. It sounds like California 30 years ago, but it is not: it is Australia today. Yet Australia could become a sort of California-and perhaps a still more successful version of the Golden State.

It already has a successful economy, which unlike California's has avoided recession since 1991, and a political system that generally serves it well. It is benefiting from a resources bonanza that brings it quantities of money for doing no more than scraping up minerals and shipping them to Asia. It is the most pleasant rich country to live in, reports a survey this week by the OECD. And, since Asia's appetite for iron ore, coal, natural gas and mutton shows no signs of abating, the bonanza seems set to continue for a while, even if it is downgraded to some lesser form of boom (see article). However, as our special report in this issue makes clear, the country's economic success owes much less to recent windfalls than to policies applied over the 20 years before 2003. Textbook economics and sound management have truly worked wonders.

A flash in the pan?

Australians must now decide what sort of country they want their children to live in. They can enjoy their prosperity, squander what they do not consume and wait to see what the future brings; or they can actively set about creating the sort of society that other nations envy and want to emulate. California, for many people still the state of the future, may hold some lessons. Its history also includes a gold rush, an energy boom and the development of a thriving farm sector. It went on to reap the economic benefits of an excellent higher-education system and the knowledge industries this spawned. If Australia is to fulfil its promise, it too will have to unlock the full potential of its citizens' brain power.

Australia cannot, of course, do exactly what California did (eg, create an aerospace industry and send the bill to the Pentagon). Nor would it want to: thanks to its addiction to ballot initiatives, Californian politics is a mess. But it could do more to develop the sort of open, dynamic and creative society that California has epitomised, drawing waves of energetic immigrants not just from other parts of America but from all over the world. Such societies, the ones in which young and enterprising people want to live, cannot be conjured up overnight by a single agent, least of all by government. They are created by the alchemy of artists, entrepreneurs, philanthropists, civic institutions and governments coming together in the right combination at the right moment. And for Australia, economically strong as never before, this is surely such a moment.



What then is needed to get the alchemy going? Though government should not seek to direct the chemistry, it should create the conditions for it. That means ensuring that the economy remains open, flexible and resilient, capable, in other words, of getting through harder times when the boom is over (a sovereign-wealth fund would help). It means maintaining a high rate of immigration (which started to fall two years ago). It means, above all, fostering a sense of self-confidence among the people at large to bring about the mix of civic pride, philanthropy and financial investment that so often underpins the success of places like California.

Many Australians do not seem to appreciate that they live in an unusually successful country. Accustomed to unbroken economic expansion-many are too young to remember recession-they are inclined to complain about house prices, 5% unemployment or the problems that a high exchange rate causes manufacturing and several other industries. Some Australians talk big but actually think small, and politicians may be the worst offenders. They are often reluctant to get out in front in policymaking-on climate change, for instance-preferring to follow what bigger countries do. In the quest for a carbon policy, both the main parties have chopped and changed their minds, and their leaders, leaving voters divided and bemused. There can be little doubt that if America could come to a decision on the topic, Australia would soon follow suit.

Its current political leaders, with notable exceptions, are perhaps the least impressive feature of today's Australia. Just when their country has the chance to become influential in the world, they appear introverted and unable to see the big picture. Little legislation of consequence has been passed since 2003. A labour-market reform introduced by the Liberals was partly repealed by Labor. A proposed tax on the mining companies was badly mishandled (also by Labor), leading to a much feebler one. All attempts at a climate-change bill have failed. The prime minister, Labor's Julia Gillard, admits she is unmoved by foreign policy. The leader of the opposition, Tony Abbott, takes his cue from America's tea-party movement, by fighting a carbon tax with a "people's revolt" in which little is heard apart from personal insults. Instead of pointing to the great benefits of immigration-population growth is responsible for about two-fifths of the increase in real GDP in the past 40 years-the two parties pander shamelessly to xenophobic fears about asylum-seekers washing up in boats.

...or a golden future?

None of this will get Australians to take pride in their achievements and build on them. Better themes for politicians would be their plans to develop first-class universities, nourish the arts, promote urban design and stimulate new industries in anything from alternative energy to desalinating water. All these are under way, but few are surging ahead. Though the country's best-known building is an opera house, for example, the arts have yet to receive as much official patronage as they deserve. However, the most useful policy to pursue would be education, especially tertiary education. Australia's universities, like its wine, are decent and dependable, but seldom excellent. Yet educated workers are essential for an economy competitive in services as well as minerals. First, however, Aussies need a bit more self-belief. After that perhaps will come the zest and confidence of an Antipodean California.

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Austerity in southern Europe

Spain's cry of pain

How to get the protesters out of the plazas and into jobs



THEY claim to be inspired by the Arab spring, or the student uprising of May 1968 in Paris. But if you want a parallel for the anti-political protests that have swept across Spain, maybe it is to be found in Argentina in 2001-02, when years of recession ended in debt default and rowdy mobs shouted "*que se vayan todos*" (loosely, "kick all the bums out").

Fortunately, Spain is not Argentina-at least not yet. And the tens of thousands of mainly young Spaniards camped out in city squares have been impeccably well behaved. Even so, the protests may deter politicians from the grim task of saving Spain's economy from stagnation and banishing the fear of default. So may the crushing defeat inflicted on the ruling Socialist party of Jose Luis Rodriguez Zapatero by the conservative People's Party in regional and local elections on May 22nd (see article). Mr Zapatero was slow to face up to the bursting of the housing bubble, but over the past year he has pushed through spending cuts and some structural reforms. So the double rejection of his government has worried financial markets, already jumpy about resistance to austerity in Greece and Portugal. Spain, too big to bail out, matters still more.

The surprise in the Spanish protests is that they didn't happen sooner. Youth unemployment is over 40%. Many young Spaniards live at home with parents who are themselves jobless and who may well be struggling to pay debts of their own. The protesters convey a mood more than a message. There is a faint echo of Spain's anarchist tradition in their anti-party, anti-union slogans, mixed with familiar anti-globalisation rhetoric. But there are two strands to their discontent that the politicians should listen to.

First, the protesters have a point when they say that the political and media establishment has become aloof and self-serving. The politicians who crafted Spain's democratic institutions in the 1970s had good reasons for favouring strong parties and governability over perfect representation. The instability, fragmentation and polarisation that marked the last democratic experiment in the 1930s led to civil war and decades of dictatorship under General Franco. But the unintended result has been over-mighty and unaccountable party bosses. Corruption, though the exception, has often gone unpunished. So there is a case for looking at electoral reform, and especially at introducing an open-list system that would allow voters to pick and choose among individual candidates.

Time for Rajoy to come off the fence

The second and bigger reason for the protests is that Spain's rigid two-tier labour market, bolstered by the unions, cossets the insiders who have permanent jobs at the expense of the young and unemployed, who are left out in the plazas. To his credit, Mr Zapatero has begun to cut the cost of hiring. He also wants to make collective bargaining more flexible. But more boldness is needed. Spain's best hope of growing its way out of its mess is through exports; given that membership of the euro means it can no longer devalue, that requires falls in the real value of wages.

Mr Zapatero wisely said this week that he would stick to his guns. But he is on the way out. His party quickly needs to choose a new leader, preferably Alfredo Perez Rubalcaba, the shrewd interior minister. As for the People's Party, it is savouring a return to power in elections due by March next year, even though its leader, Mariano Rajoy, has often been

equivocal about reforms. With the local elections over, the protests will probably fizzle for a while. But Mr Rajoy should have no illusions. Unless he unveils radical plans to improve the lot of younger Spaniards, they will be back.

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The IMF

Time for a change

Why a euro-zone finance minister, even a talented one, should not lead the IMF



OFFICIALLY the search for a new head of the IMF, to replace Dominique Strauss-Kahn, who awaits trial on charges of sexual assault, has barely begun. The fund's member governments have until June 10th to propose candidates, after which a shortlist will be drawn up. But in practice the race seems all but over. That is because European countries, which hold over a third of the votes on the IMF's board, have rallied around a single contender: France's finance minister, Christine Lagarde.

In contrast, emerging economies, which have long argued that the fund should have a non-European boss, have so far conspicuously failed to fix on an alternative candidate. The Americans, kingmakers in this contest, have said little in public but in private seem happy with Ms Lagarde, not least because they hope to keep both the deputy's job at the fund and the presidency of the World Bank. Barring embarrassments, one French politician is likely to succeed another.

Ms Lagarde has many strengths. She has been a steady and successful finance minister, no mean feat with a boss as mercurial as Nicolas Sarkozy. A lawyer by profession, she lacks the technical background that the IMF's best bosses have had, but she is a superb communicator, a good negotiator and, by all accounts, an excellent manager. Given the circumstances of Mr Strauss-Kahn's departure, the fact that she is a woman is a bonus. It is not hard to see why even Western finance ministers with a low opinion of Mr Sarkozy have rushed to anoint her.

But it is still wrong. To begin with, the stitch-up, whereby the head of the IMF is a European and the head of the World Bank is an American, is a disgrace. International posts should be filled according to merit. And the growth of emerging economies makes it even less defensible.

Not exactly Europe's moment

Moreover, the case against appointing a euro-zone finance minister as head of the IMF now is overwhelming. The main issue facing the fund is the euro zone. The fund is supposed to be an impartial arbiter of good economic policy. It is the only organisation likely to force a rethink of the euro zone's failed strategy towards Greece, Ireland and Portugal. There were already fears that Mr Strauss-Kahn's presidential ambitions led the fund to be too soft on Europe. Ms Lagarde has played a central role in forming the euro zone's response to its debt crisis, and whatever her private views, she has a public record of defending the indefensible. Staggeringly, some Europeans have tried to argue that only one of their own can understand their continent's complex politics; imagine the laughter if somebody had made the same argument for Argentina's finance minister in the 1980s or Thailand's in 1997.

Besides, there are people who could do the job well who do not happen to be euro-zone finance ministers. Stanley Fischer, the governor of Israel's central bank and former number two at the IMF, has vast experience of international economics and financial crises. Agustin Carstens, head of Mexico's central bank and also a former official at the fund, is another safe pair of hands. Tharman Shanmugaratnam, Singapore's finance minister and head of the IMF's policy advisory committee, is widely admired for his technical and political skills. Among central banker types, Mark Carney (currently at the Bank of Canada) and Arminio Fraga (formerly president of Brazil's outfit) have stood out. Admittedly, none of these men is perfect: Mr Fischer, for instance, is too old under existing rules and had a patchy record as deputy head of the fund. But none of them is as compromised as Ms Lagarde.

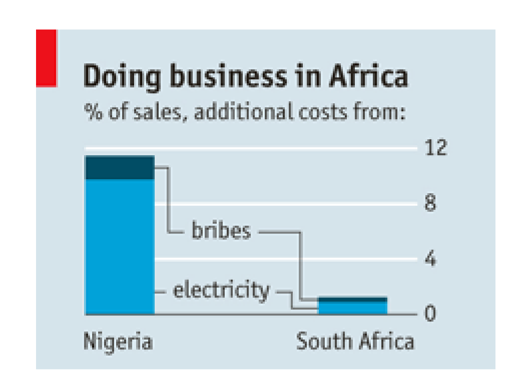
It is still not too late for emerging economies to unite around a different candidate, and for America to support their choice. Europe's monopoly of the IMF's leadership has long been an anomaly. It is time that it ended.

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Hope in Nigeria

Hail the useful chief

To thrive, Nigerians need strong medicine. They may at last be about to get it



BACKHANDERS are so common in Nigeria that they feature in the country's unofficial anthem, "International Thief Thief". Its author, Fela Kuti, the late father of the Afrobeat genre, sang in 1980, *To become of high position here / Him go bribe some thousand naira bread / To become one useless chief*. When a Broadway musical based on Kuti's life premiered in Lagos recently, fans shouted out the names of today's leaders over the first few bars. Little has changed since the song was written. When *The Economist* requested an interview with the president, we were asked whether we would contribute to his election campaign-or whether the president should pay us.

Politicians in all parts of the world want bungs. But Nigerian leaders are so greedy that they have subverted the entire machinery of state to serve their needs. Every policy is a scam, every regulation a source of rent (see article).

Freed from kleptocrats, Nigeria could be an African giant. It has the people, resources and entrepreneurial metabolism to make it one of the world's 20 leading economies, reckons PwC, a consultancy. Today it ranks 132nd by GDP per head. More than two-thirds of its people live on under $2 a day. Despite its many resources, the amount of electricity that is delivered to each Nigerian is a thirtieth of the level in South Africa.

Most of the reforms Nigeria needs have been desperately obvious for years. They include: privatising state-run companies, publishing credible accounts, entrusting the fight against corruption to independent investigators and, most of all, scrapping the regulations abused by rent-seeking officials.

The argument against this, usually advanced by those who gain most from the current system, is that Nigeria cannot take such strong medicine. The excuse is that a tense country with 250 ethnic groups needs a system of patronage to buy peace.

Nigeria is indeed fragile. At least 800 died during a four-day surge of violence last month and thousands perish in clashes every year. The country is divided between the Muslim north and the Christian and animist south. As southern boomtowns like Lagos emulate Bangalore, northern Nigeria risks becoming another Pakistan, home to hordes of impoverished extremists.

But this is all the more reason to press on with reform. Violence is fed by economic misery, not al-Qaeda. The non-oil part of the economy makes up just 4% of the private sector. Only unshackled private enterprise and a fairer distribution of oil revenues can halt the slide towards all-out conflict.

Nigeria's chance

Few politicians do more than pay lip service to reforms. That could now change. On May 29th Goodluck Jonathan will be inaugurated as president. Mr Jonathan, a former vice-president, is relatively untainted by corruption and has the instincts of a reformer. As interim president, after his predecessor's early death, he started to privatise the power sector and gave the election commission its first independent head.

Under him Nigeria last month held the fairest poll in its history. International observers confirmed the outcome, giving Mr Jonathan a strong enough mandate to undertake reform. He strengthened his position by pledging not to run again, lessening the need to buy support from cronies.

Whether Mr Jonathan has the will to tackle the establishment remains to be seen. He may only muddle through. But the door is open. This is Nigeria's best chance in a generation to shed its reputation as Africa's wasted opportunity.

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Letters

On American labour, innovation, Croatia, African agriculture, Irish history, FIFA

Letters are welcome via e-mail to letters@economist.com

America's workers



SIR - In your article about politicians' failure to tackle America's problems, you said that "government has a terrible record at picking winners" ("What's wrong with America's economy?", April 30th). Actually the American government

has a very successful record of fostering innovation in fledgling industries having taken an extremely developmental approach towards the economy since the industrial revolution.

A few noteworthy examples might include the precision metalworking industry, the steel industry, railroad industries, air travel, silicon microchip manufacturing, automotive manufacturing, biotechnology and the internet. All of these industries (and many others) have received large subsidies, research grants and highly-educated labour as a result of both direct and indirect investment from the state.

Matthew B. Ross
Lowell, Massachusetts

SIR - Your article addressed the problem of the difficult job market for low-skilled Americans. You pointed out that these types of jobs are becoming less plentiful in America. This would seem to underscore the fact that allowing ever more unskilled illegal immigrants to enter the country to work at low-skilled jobs is a bad policy, yet every article I read of yours unfailingly addresses any immigration as a positive thing. *The Economist* is pro-immigration to the point of being contradictory.

Kenneth Mundy
Los Angeles

SIR - In the days when what was good for General Motors was good for the country, manufacturing firms paid their workers well, provided health-care benefits and bought parts from local suppliers. They probably also paid taxes.

In recent years the desire for profits has led to the outsourcing of production to countries where labour costs are less, with a consequent loss of jobs in America. The use of offshore tax havens to protect these profits deprives the Treasury of funds to compensate the unemployed. You are right to castigate the politicians for their failure to deal with the problem but they are not the only villains.

Ronald Macaulay
Claremont, California

* SIR - Your article underplayed some of the more more basic causes in the structure and practices of American business, as well as the handcuffs on remedial action by the federal government.

To exhort congress and the presidency to do more is mostly a futile gesture to make, when our politicians are trapped under the control of the new ruling class, called "oligarchs". This class comprises roughly Wall Street, big business, and the wealthy in general, together with their myriads of lawyers, lobbyists and friends in the public media. It has its own ideology, notably balancing the federal budget by cutting both the taxes and the expenditures of government, maximising net profits, hoarding profits and restraining investment in America (perhaps to keep wages low and keep labour unions weak), and calling for small government. The most domineering practice of the oligarchs is the huge sums they contribute to the election campaigns of congressmen-mainly Republicans-who thus become their tools, often giving us "the worst Congressmen money can buy".

This oligarchy may seem impregnable, but it is now at its most vulnerable as it is battered by popular complaints about the economy, unemployment, mortgages and other hardships which derive from the housing/banking bubble of the past decade and its terrible crash in 2008. The best reform here would be to federalise all election campaigns, at a prescribed, uniform and vastly reduced level per candidate-to be financed by a small surcharge in income tax. Once the dependency of candidates on big private donations was ruled out, politicians would presumably be free to vote on the real issues, and for the public welfare. The oligopolists' Berlin Wall would come crashing down.

Edwin P. Reubens
Weston, Florida

Evolving ideas



* SIR - Your article ("Still full of ideas, but not making jobs", April 30th) used historical indicators (eg, patent applications) and outcomes of innovation (eg, employment in the "home" market) that, I contest, will not stand up to the test of time.

First, productivity growth and increased employment from new technologies do not respect national borders, especially in a world of freeware and cloud computing. The benefits of innovative ideas go to those who exploit them best, not those who spend the most on research and development. I set up a GPS travel company in South Africa using free online templates, Google maps, imported smartphones and PayPal. Moreover, growth in one country is not, as you suggested, always a positive externality on others. My competitors are tour operators-many of them American-and the industry is essentially a zero-sum game. If we "win" clients, they really do lose them.

Second, patent applications are a narrow measure of innovation from an outdated, more mechanical, world. These days it is not owning the idea that counts, but owning the "space". That means actively helping other companies to build related, interfacing and complementary products that a protective patent might discourage. Witness the iPhone's App Store. Or Facebook v MySpace. We don't own any patents and welcome competitors because it creates momentum, noise and credibility.

You were right, however, that historically the innovation's country of origin goes on to develop world-beaters. Take England, for example, home of the industrial economy, modern banking and football.

Rob Macean
Managing director
Satpack Travel
Johannesburg

Unrest in Croatia

SIR - Yes, Croatians are angry because of the conviction by the UN war-crimes tribunal of Generals Gotovina and Markac ("Protest days", April 23rd). But Croatians are also upset because of the double standards of Western politicians and media.

You said that populism is on the rise across the Balkans, but I don't think this is the case in Croatia. Unlike in most west European countries, we have no radical populist political force. The protests, mostly in Zagreb, are because people want change: the government is riddled with corruption and the reputation of the traditional opposition party, the Social Democratic Party, has been tainted by scandal.

We are not populists. We just want to be equal to those who call us populists because we demand a cleanhanded government or equal treatment before international tribunals. The soldiers and generals of many armies will never appear before the International Criminal Court, as they decided not to join or ratify the treaty. Some countries can do that without any consequence, but we cannot.

Milan Bandic
Mayor
Zagreb

Land ownership



SIR - You mentioned a deal signed by farmers in Makeni, Sierra Leone, granting land to a "Swiss company" to grow biofuels ("When others are grabbing your land", May 7th). Since we are the only Swiss company with a biofuel project in Makeni we were disappointed to be mentioned in an article on "land-grabbing".

Here are the facts. Addax will create more than 2,000 jobs when the project is fully operational in 2013. We already employ more than 500 (not 50) workers who are paid more than twice the minimum wage, where before they had no income at all. Addax is also ploughing 2,000 hectares of farmland and training local farmers to grow crops and improve subsistence practices.

Land leases were signed after a long, transparent and public consultation process in which landowners were represented by a law firm to negotiate the lease terms. Addax is enhancing landowners' rights by charting maps of their landholdings on the basis of traditional property boundaries. We have engaged in intense dialogue with locals for three years, and continue to do so.

There are already signs of improvement for local communities who support the project. And the public consultation process and environmental and social impact assessment were carried out by independent experts in compliance with World Bank standards, and those of the African Development Bank-one of the institutions that finances and monitors us.

Nikolai Germann
Managing director
Addax Bioenergy
Geneva

SIR - The phenomenon of farm land grabs in the developing world is part of a much bigger story. Almost all the cases you quoted are in Africa where, with the connivance of local authorities, it is very easy to acquire occupied land. Africa is a continent where even in urban areas title deeds are either absent or suspect. This has been fatal to development, for without private land ownership and a vigorous market in it, wealth cannot be created in the way it has been in developed countries.

John Hollaway
Harare

SIR - Your article risked tainting all private-sector initiatives in African agriculture. We must distinguish between good and bad investment models, and thereby encourage positive efforts, rather than adding a reputational risk on top of an already marginal commercial equation for those investors with good intentions.

Ian Randall
Brighton

Irish rogues



SIR - You said that unlike Elizabeth II, Henry II did not receive an invitation to Ireland ("Irish, and British, eyes are smiling", May 21st). This is not quite accurate.

The Norman invasion of Ireland was instigated at the invitation of Diarmaid Mac Murchada, King of Leinster, who was dispossessed of land by the High King of Ireland, Ruaidhri Ã“ Conchobair. Diarmaid met Henry II in Aquitaine in 1166. Henry agreed to send a force led by Richard de Clare, Earl of Pembroke (nicknamed Strongbow), who was married to Aoife, Diarmaid's daughter. They arrived in 1169, and when a dispute arose over the succession to Leinster on Diarmaid's death in 1171, Henry II claimed fealty of the entire island of Ireland.

Naturally, this invitation from Diarmaid for foreign assistance started centuries of English involvement in Ireland, and it has earned Diarmaid a place of infamy in the gallery of rogues of Irish history.

William Quill
Bray, County Wicklow

An own goal



SIR - FIFA does, at least, have an appropriate acronym ("Offside", May 14th)-many of its committee members seek (allegedly) a fee for this, and a fee for that.

Richard Bayley
London

* Letter appears online only

Index | Briefing

Nigeria's prospects

A man and a morass

Can the new government of Goodluck Jonathan clean up corruption and set enterprise free in Africa's most populous country?



NIGERIANS have taken to watching an old film-one of their own-since the presidential election last month. It shows intrigue and thievery at the court of an ancient king in the Niger Delta. Decked out in glittering costumes on an improvised sound stage, the wicked court at last collapses under the weight of its own sins.

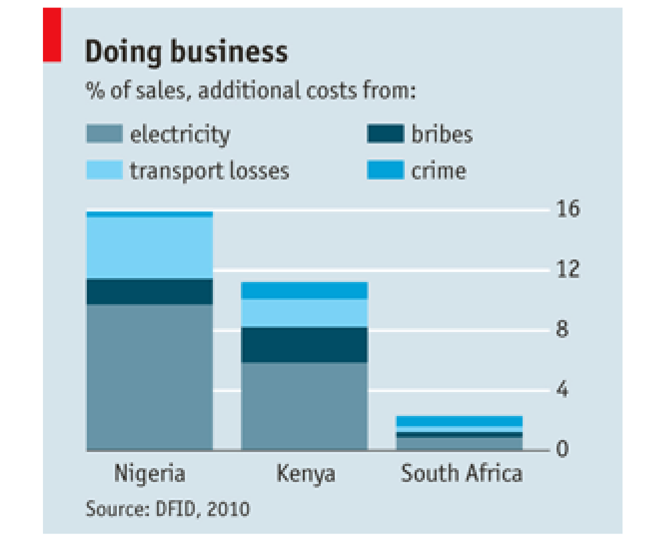
When it was released in 1999, "Saworoide" was seen as a commentary on the regime of Sani Abacha, who ruled (or, as some prefer, "dismembered") Nigeria between 1993 and 1998. Once again, Nigerians are hoping to see the back of their ruling elite. Goodluck Jonathan, the president, wafts along on a wave of personal goodwill and is mostly seen as benign. It is the men and women around him whom voters blame for Nigeria's woes.

With Mr Jonathan's inauguration on May 29th, and the formation of a new government, many expect a turnaround. Two-thirds of Nigerians think the election will change their lives, according to a poll conducted by the International Republican Institute, an American outfit that promotes democracy. "We dream," says a girl shining shoes. "What else can we do?"

The buoyant mood extends to the boardrooms and watering holes of Lagos, the business capital. There, sleekly suited bankers are licking their fingers. "We are printing extra business cards," says one. Foreign investors, too, see a chance of good times ahead on the back of reforms promised by Mr Jonathan. They speak of billions held in offshore accounts, ready to be injected into the economy if the political stars align. A senior Western diplomat calls this "a real opportunity for Nigeria to kick itself into a new sphere".

Though widely shared, that sentiment has not silenced the general dissatisfaction. If anything, it has grown louder as reform plans take shape and the rascal ways of the political class are unmistakably identified as the main reason for the lack of prosperity. The economy may be growing by 7% a year, but this feeds mostly the greedy mouths closest to government troughs. The speaker of the lower house of parliament was investigated this month for "misappropriating" $140m. Meanwhile, about 70% of Nigerians live on less than $2 a day.

The problem is not simply one of embezzlement and bribery. The entire state machinery exists to siphon off cash. Many functions of government have been adapted for personal gain. It starts at the frontier. Access to the fast-track channel at Lagos airport can be bought from touts for $10. Border guards in cahoots with them work extra slowly to make this option more attractive.



A universe of red tape engulfs the economy. In a survey by the International Finance Corporation, Nigeria ranks 178th out of 183 countries when it comes to transferring property. In some Nigerian states, governors must personally sign off on every property sale; many demand a fee.

Senseless restrictions and arcane procedures abound. Procter & Gamble had to shelve a $120m investment in a factory to make bathroom products because it could not import certain types of specialist paper. An American airline waited a year for officials to sign off on an already agreed route from Atlanta to Lagos.

Massive economic failure is the result. Employment in industry has shrunk by 90% in the past decade, "almost as if by witchcraft", says one sheepish boss. The few jobs that exist are mostly offered by cartels. These control imports, too. The need for new infrastructure is vast, but the price of a 50kg bag of cement is three times higher than in neighbouring countries. Fighting cartels is hard. Customs officers are bent, hindering foreign competitors. Judges are easily bought. The police are, at best, ill-equipped. One in four cops exists only on paper: chiefs collect the extra pay.

Nigeria is the leading oil producer in Africa, with a revenue stream of about $40 billion a year. The effect of this wealth is mostly corrosive. "Nigerian politics is one big bun-fight over oil money," says Antony Goldman, a consultant. Three-quarters of the government budget goes toward recurrent expenditure, including salaries. Parliamentarians are paid up to $2m a year-legally. Very little is invested in infrastructure. State governors all receive big slices of the oil pie. This has attracted some very shady characters into politics.

North and south

Where the state gets out of the way, Nigerians can often be hugely successful. Many are capable entrepreneurs. The $800m-a-year film industry is the second-most-prolific in the world and Nigeria's second-biggest employer, after the government. Parts of the country enjoy remarkable prosperity. Most sweet spots are in the south-west, in or close to Lagos. A growing middle class has sprung up there, hungry for consumer goods. One million Nigerians have BlackBerries.

Most imported goods pass through the remarkable southern city of Onitsha, a thriving commercial hub and the biggest market in Africa. Up to 3m people throng its narrow alleys every day, many of them balancing flat-screen televisions on their heads as if they were buckets filled with water at the village well. The fringes of the city are lined with palatial villas built by successful traders, who decorate them with garish statues of nymphs and angels.

But Onitsha is an exception. More than two-thirds of Nigerians are still subsistence farmers. The majority, many of them Muslims, live far away from the coast. Incomes per head in the north are 50% lower than in the Christian south, and falling. Literacy rates in the north-east are two-thirds lower than in Lagos. A senior official in Kano, the northern capital, says 2m of the 9m residents are beggars. The city's industrial areas, once centres of garment-making, are now ghost towns. Cowpea vines blow around the empty roads.

The south-with its ports and banks-has found it somewhat easier to escape the state's poisonous hand. Deindustrialisation has hit hardest in the north, and not just economically. Militancy is on the rise among the young. Overland roads are unsafe. Only the suicidal venture out at night. Attacks on civilians and security forces are increasingly common. Young men without jobs burned down the houses of political leaders after the election last month, enraged that the Poobahs should enjoy another four years of pampering. About 800 people died, some in revenge attacks.



It is no surprise that extremists thrive in this climate. Boko Haram, a local terror group, is roaming ever wider and fine-tuning its methods; a link-up with al-Qaeda may be next. Northern extremism is fuelled by the fear of loss. Unlike his predecessor, President Jonathan is from the south. Many northerners worry that he will neglect them, or even turn off their oil. Nigeria's electoral map (right) reflects this. All states north of the capital, Abuja, voted against Mr Jonathan; all but one state south of it voted for him.

This deep national rift is all the more reason, as one newspaper put it, "to be frontal in tackling the monster", meaning the sclerotic state that has destroyed the northern economy. Progressives even blame it for all Nigeria's ills. "Bad governance is the root cause everywhere," says Chidi Odinkalu of the Open Society Foundations. When an unstable water tank on the ramshackle roof of a school came crashing down last year, killing six children, it was seen across the country as an example of state failure. Lamido Sanusi, the respected central-bank governor, who spent years in the private sector, says: "We need a civil war in government. We need people who will fight for change."

What kind of change? Reformers have a long wish-list. Job-creation, however, could be relatively straightforward. Nigeria could funnel its oil revenues into a more efficient financial system that could provide capital to the private sector to build roads and power stations and expand private enterprises, such as farming.

Plans are already on various drawing boards. Parliamentarians have for years been trying to pass a new oil law. The oil companies want it, pining for clarity so that they can safely increase production. But even the new law will not tackle the biggest problem: the fact that Nigeria's national oil company is both a player in the industry and its (incompetent) regulator. At the least, its functions should be split; and it, too, should be cut free of the state.

Oil pumped in the Gulf of Guinea comes ashore, via the international spot market, in the form of billion-dollar transfers that have made Lagos a regional financial centre. There reforms have already started-and have shown some results. One in five Nigerians has a bank account, with a further 10% increase predicted from mobile-phone banking over the next five years. A professionally managed sovereign-wealth fund will replace the current slush-fund that was used by the government to give away more than $10 billion in the run-up to the election.

The fund will probably adopt standard transparency rules known as the Santiago Principles. Elsewhere, however, opacity mars almost every aspect of the financial sector. The central bank has been so frustrated that it recently banned cash payments of more than a few thousand dollars. Yet black money has its advantages. Because international banks have imposed stricter controls, a lot more of it stays in Nigeria now than was the case a few years ago. Murky funds once bound for Switzerland instead flow into local construction, telecoms and hotel companies.

Power poverty

The two biggest beneficiaries of financial reforms would be agriculture and electricity. Farmers desperately need help. In 1997 they received 17% of total lending; today they get 1.4%. Once West Africa's breadbasket, Nigeria can no longer feed itself. Last year it spent $1 billion on importing rice-ten-year-old rice from Indian grain reserves-while close to 40% of its own harvest rotted, mostly for lack of roads to markets and processing plants.

Infrastructure is key. And the single biggest impediment to building it is Nigeria's negligible power supply. The situation is grotesque. MTN, a mobile-phone company, has masts all over the country, as it does in South Africa, where the power supply is better. Operating costs are three times lower there. In Nigeria MTN must equip each mast with a generator, a back-up generator, a fuel tank, guards to protect the fuel and a lorry to deliver it.

It is hard to exaggerate Nigeria's power-poverty. The seventh-most-populous country in the world, and its seventh-biggest oil exporter, has as much grid power as Bradford, a post-industrial town in the north of England. Nigeria is the world's biggest market for private generators; many middle-class homes have one, but small businesses can rarely afford them.

Mr Jonathan has said that power reform is his "highest priority" on his Facebook page (which most Nigerians will have trouble accessing without electricity). He has created a new government agency to privatise six generating companies and 11 distributors by the end of the year. More than 300 investors, both domestic and international, are considering bids. Grid transmission will remain in government hands but will be privately managed. The aim is to triple supply by 2013.

That will not be easy. Power-company employees fear their jobs will go. Consumers complain about price increases. Soon-to-be-emasculated industry insiders resent the loss of bribe income. And the mafia that sells fuel to millions of generator-owners is fighting for its market. Bart Nnaji, the president's power tsar, admits that "there are people who don't want reform to happen." He has an armed guard outside his office door, and his employees receive anonymous rape threats.

Nonetheless, privatisation is going ahead, though three to six months behind schedule. Entrepreneurs are also being encouraged by Mr Nnaji to build brand-new power plants. Paul Okpue, who makes bamboo flooring in Asaba, a town near Onitsha, says: "I will have my own plant and feed what I don't use into the grid and get paid for it." He is eligible for a low-interest government loan of up to $30m.

Godfathers v radicals

Reform will be worth little, however, if state corruption is not tackled. That needs institutional change. In the view of many Nigerians, high officials should lose their immunity; legislators' salaries should be cut, so as not to attract cowboys; and the publication of all government accounts would be a good idea. Parliamentarians, of course, disagree. A constitutional convention may be needed to push through the trickiest reforms.

Many frustrated businessmen-some unpaid for years-think the situation is hopeless. Yet Nigeria's recent past suggests that small changes can bring vast benefits. The appointment of Attahiru Jega as head of the election commission last year produced the first credible poll in a generation. Telecoms privatisation has reduced phone prices by 99%.

Nigeria is reformable, but it needs the right sort of leader. Its presidency is more powerful than its American equivalent. Favours are bestowed and punishments meted out by "the man in the villa", as some Nigerians call the occupant of the presidential palace. But he must assert himself over advisers, ministers and godfathers-the visiting regional bosses who lobby him. Many supported Mr Jonathan, who was formerly vice-president, during his 12-month interim presidency after his predecessor, Umaru Yar'Adua, died in office. Now they expect payback. IOUs will be cashed. This is the point where every civil-service reform in the past has failed.


So far to go, so much to do

Power in Nigeria is exerted by groups, not individuals. The country is too big for one man to rule. Even military leaders two decades ago chose to share power with a clique. A system of ethnic and regional quotas has developed. Jobs in all institutions are apportioned. Each of Nigeria's 36 state governments, for example, proposes one cabinet minister. Loyalty in cabinet is rarely to the president, but to the godfather who picked the minister-and now expects a share of the loot.

To change the system, Mr Jonathan would have to break with his backers. That is difficult, perhaps even dangerous. For instance, a mafia that embezzles vast fuel subsidies is said to be a big contributor to his campaign. The government spends more than $4 billion a year to sell fuel at less than half the already low American price. (Since Nigeria has no domestic refining capacity-billions allocated to repair its facilities were squandered-the fuel must be bought on international markets.) The president's backers routinely falsify bills of lading, inflating the amount of fuel imported fivefold, then collect the government subsidy on all of it, and finally smuggle the fuel to a neighbouring country to sell at double or triple the price. Mr Jonathan, of course, did not personally take their money. But if he goes after them their cronies may stop co-operating.

Political radicalism has a bad name in Nigeria, and not only when it threatens entrenched interests. The bloody Biafran war of the 1960s, when the south-east tried to secede, tainted subsequent attempts at wholesale change. And yet Nigeria has a rich history of radicalism. Half a century ago radical liberals helped drive out their colonial masters. Today's radicals, surprisingly, tend to look not so much to their own history as to America's.

Some see Mr Jonathan following in the footsteps of Chester Arthur, the 21st American president. Like him, he is humbly-born and bookish. Arthur was a penny lawyer, Mr Jonathan the first in his family of canoe-makers to earn a PhD (though some doubt he wrote it). Both men fell in with mean political machines-Arthur in New York, Mr Jonathan in the Niger Delta-and were elevated from total obscurity to the vice-presidency by scheming regional bosses. Then the president suddenly died (Garfield in 1881, Yar'Adua in 2010), and the top job was theirs. Arthur deserted the machine that made him and put it out of business. He created the modern American civil service and throttled patronage politics. He was not re-elected.

A cautious reformer

Might Mr Jonathan follow the same path? He has vowed not to run for office again, which should make things easier. But so far he has not shown the necessary ruthlessness. According to his official biography, "He abhors embarrassing situations; he hates failures and he loves peace." His attention span is short, his public speaking poor. In meetings he sometimes reads from notes and "drifts off". During the election campaign he refused to debate his challengers unless he could control the rules. Voters may have promoted him beyond his natural abilities. When he was a provincial official in the 1990s, his catchphrase was "Don't overdo things."

Nonetheless, there is some evidence that he is a committed reformer. Over the past year he has religiously held a meeting on power reform every Tuesday from 11am to 1pm. That has made a big difference. Some of the advisers he has picked

are dyed-in-the-wool reformers: men like Oronto Douglas and Ken Wiwa, who have come up through civil-society organisations. Alas, the man he chose as his vice-president is a patronage merchant with a huge personal fortune.

Which way Mr Jonathan will lean in the next four years should become clear soon. In early June he will unveil his new team. If he is going to defy the godfathers, this is the time to do it. The head of police, the customs chief, the chief justice, the main anti-corruption investigator-will they be partisan stooges, or men who put the country first?

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Jon Huntsman

Picture perfect

But can Utah's impressive ex-governor catch up with the front-runner for the Republican nomination, his fellow-Mormon Mitt Romney?



"I'M A margin-of-error guy," Jon Huntsman cheerfully admits to an audience of a few dozen at a grand lakeside home in New Hampshire. Support for his putative presidential bid, he explains, registers in the low single digits in most polls-a level so low as to be meaningless. He and his family are "grateful that anyone would want to show up and shake our hands".

Yet most pundits count Mr Huntsman as one of the leading contenders for the Republican nomination, alongside his fellow former governors Mitt Romney and Tim Pawlenty. In part, that is because the field is steadily narrowing: Mitch Daniels, another governor with a strong following among fiscal conservatives, bowed out of the race this week. Apart from Mr Huntsman himself, who says he will decide definitively whether to run next month, there are now only two possible entrants of any stature still on the sidelines: Sarah Palin and Michele Bachmann. There is talk that Mrs Bachmann, in particular, is about to join the fray, but both she and Mrs Palin are right-wing firebrands with a limited, albeit devoted, following.

The hype about Mr Huntsman also stems from his impressive resume, including a term-and-a-bit as governor of Utah, a stint as ambassador to China (he speaks fluent Mandarin), various high-powered jobs in Washington and several spells in the family business. For all his self-deprecation, he appears on the verge of launching a determined campaign, having recruited staff, sounded out fund-raisers and tested the waters with a five-day tour of New Hampshire, which will hold the first Republican primary early next year.

On his swing through the state, after the usual tropes about being a father first and foremost, saluting the service of veterans and relishing the give-and-take with the locals, Mr Huntsman spoke chiefly about his desire to revive the economy through a new "industrial revolution". America could bring one about, he argues, by reducing its debt, lowering and simplifying taxes, cutting regulation and increasing the exploitation of domestic sources of energy. The alternative, he says, is a decade of stagnation and decline.

But unlike Mr Pawlenty, who officially launched his campaign this week, Mr Huntsman does not cite litanies of grim statistics, let alone blame Barack Obama for them. Indeed, Mr Huntsman usually mentions Mr Obama only to explain that when the president offered him the job of ambassador to China, he accepted out of a sense of duty. Politicians from both parties only want what is best for America, he says, and the country would be a better place if everyone acknowledged as much and kept political debate more civil.

Right-wing Republicans see all this as evidence of wishy-washiness. They complain that Mr Huntsman not only worked for Mr Obama, but also called him "a remarkable leader" in a gushing letter thanking him for the job. As governor, he defended lots of causes considered heretical by many conservatives, including Mr Obama's economic stimulus, civil unions for gay couples and a cap-and-trade scheme to reduce emissions of greenhouse gases. He has also advocated allowing illegal immigrants brought to America as children to attend state universities on the same basis as native-born locals.

Yet in most respects Mr Huntsman has an unimpeachably conservative record. He presided over the biggest tax cut in Utah's history. He instituted health-care reforms of a much less meddling sort than those embraced by Mr Romney when he was governor of Massachusetts. He signed various bills designed to discourage abortion and encourage gun-ownership. He was re-elected in 2008 with 78% of the vote in one of the most fiercely Republican states in the nation, and left office with lofty approval ratings.

Whether Mr Huntsman can appeal to red-blooded Republicans in the primaries will depend in part on the quality of his campaign. Many of the staff he has lined up are veterans of the presidential bids of John McCain, who won the Republican nomination in 2008 despite his reputation as a relative liberal. Mr Huntsman seems quite relaxed on the hustings, taking up an impromptu pool game at a veterans' club, for example (he lost), and teasing the locals about their accents. Unlike Mr Romney, he seems comfortable in a denim jacket, plaid shirt and corduroy trousers; his wife and two of his daughters accompanied him across New Hampshire in fashionable skinny jeans. His staff is happy to advertise that he dropped out of high school to play in a rock band, and is an avid motorcyclist.

But Mr Huntsman is not exactly the salt of the earth. His father made billions selling packaging to firms like McDonald's, and worked in the Nixon administration. His stump speech can seem quite esoteric at times, with references to the inaugural speech of William Harrison, America's ninth president, and to Japan's "lost decade" of economic stagnation. He keeps banging on about the effects of the public debt on the exchange rate-natural enough for a former ambassador and trade negotiator, perhaps, but hardly the main concern in the eyes of most deficit hawks.

Moreover, Mr Huntsman, like Mr Romney, is a Mormon, a faith viewed with some suspicion by the evangelical Christians who make up a sizeable share of the Republican primary electorate. In fact, Mr Romney and Mr Huntsman are (distant) cousins, and have much in common. They are both sons of billionaire businessmen-turned-politicians; both have presidential looks and picture-perfect families; both are considered ideologically unreliable by many on the right.

Mr Huntsman, however, does not seem racked by doubts. Although he insists he is still "kicking the tyres" and needs to discuss it with his family, Mrs Huntsman says she does not foresee objections of the sort that caused Mr Daniels to pass. He has governed a state, he knows about foreign policy and he oozes confidence; it would be a pity if Mr Huntsman did not run.

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The New York special election

Rejecting Congressman Ryan

Message from upstate New York: touch Medicare at your peril


Hochul gives Ryan a black eye

SPECIAL elections are peculiar beasts. When the result is not what a political party hoped for, it can always find a way to argue that the circumstances were unique and will not repeat themselves in a general election. So it was in Massachusetts in January 2010, when Scott Brown, a Republican, won the Senate seat left vacant by Ted Kennedy. The Democrats preferred to blame their lacklustre candidate than to accept the obvious: that the loss portended a nationwide reaction against Barack Obama's plan for health-care reform.

Now fast-forward to May 24th when Republicans received the bad news from New York's 26th congressional district, which since the 1960s has reliably sent one Republican after another to represent it in Washington, DC. Not, however, this time: Kathy Hochul, the Democrat, won a high-turnout race with 47% of the vote, forcing her Republican rival, Jane Corwin, into second place with 42%. An independent candidate running on a tea-party platform, Jack Davis, came third with 9%.

Mr Davis may not have scooped up many votes, but his importance is now being rapidly inflated by Republican spin-doctors. Had he not split the conservative vote, they say, the result might have been altogether different. Nice try: but this line of argument ignores both arithmetic and the testimony of voters. Notwithstanding the third candidate, Ms Hochul engineered a swing to the Democrats. And many voters who switched made it abundantly clear why they did so. "The privatisation of Medicare scares me," Pat Gillick, a Republican who voted for Ms Hochul, told the *New York Times*.

Privatise Medicare, the much-loved, and highly-subsidised government health-insurance scheme for the elderly? The Grand Old Party indignantly denies having any such intention. The day after the election, Paul Ryan, chairman of the House Budget Committee, said the Democrats had opted to "play politics with the health security of America's seniors". Ms Hochul had indeed focused her campaign relentlessly on Mr Ryan's budget plan for 2012, especially his plan to deprive retirees after 2021 of access to government-run health insurance. They would instead receive "premium support" to buy private-sector insurance policies-and the value of that support is pegged to general inflation, not the faster inflation in health costs.

Mr Ryan refuses to call this a voucher plan, let alone a form of privatisation. But, as Mr Obama discovered when Republicans attacked his "government takeover" of health care and plans for "death panels", voters make up their own minds on what to call big changes in health policy. And if, as polls suggest, voters have turned against this aspect of Mr Ryan's 2012 budget and its swingeing cuts, this spells trouble. All but four Republican members of the House of

Representatives voted for the plan. Many have since elevated it into holy writ and Mr Ryan into a guru, prompting speculation that he is a future presidential nominee. When Newt Gingrich, a former House speaker running now for the presidential nomination, made the mistake of dismissing Mr Ryan's Medicare plan as "right-wing social engineering", he was forced to issue a grovelling apology.

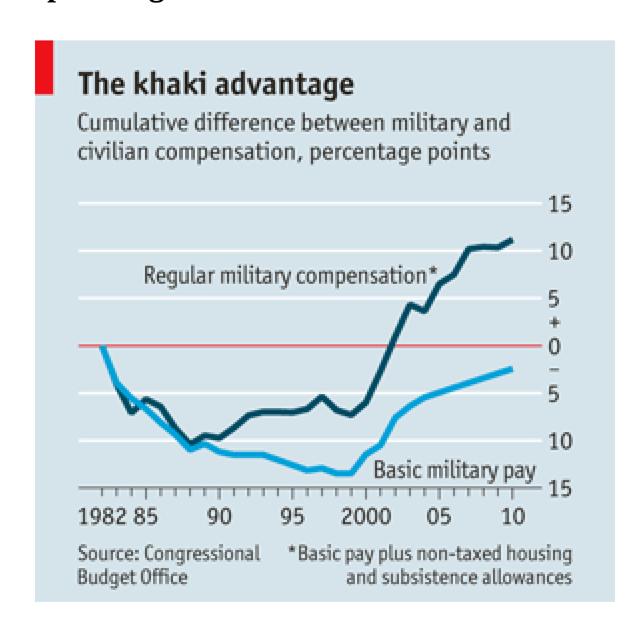
Yet Mr Gingrich was on to something. The Medicare plan, unamended, could become the party's Achilles heel as the 2012 election approaches. That is why, although candidates for the nomination still shower praise on Mr Ryan for his courage, none has so far embraced the plan as his own. Luckily for Mr Ryan and his party, the election that matters is still a year-and-a-half away. Time enough to go back to the drawing board.

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The defence budget

In the firing line

The Pentagon starts to grapple with spiralling health-care costs



AMERICAN soldiers, as their recent dispatch of Osama bin Laden demonstrates, may well be the world's best. Unfortunately for their cash-strapped paymaster, they are very expensive. After languishing in the 1980s, military compensation has, since the mid-1990s, steadily outstripped that of civilians (see chart). This month Robert Gates, Barack Obama's outgoing defence secretary, launched a review of Pentagon spending. He warned in a speech on May 24th that pay, pensions and health care would all need to be restructured, or they would crowd out the purchase of vital new weapons.

Military benefits, from subsidised food and education to free college tuition, have traditionally been used to enhance the appeal of a job that involves, at the best of times, limited freedom and frequent moves and, at worst, being killed. But with the exception of the army during the worst years in Iraq, the armed forces consistently meet or exceed their targets for recruitment and retention.

Indeed, Robert Hale, the Pentagon's comptroller, says the department now has the opposite problem: with unemployment around 9%, fewer soldiers are quitting, pushing up costs. Some branches are moving to force people to leave.

The real drivers of military pay and benefits nowadays are political. Democrats and Republicans may disagree violently on how to wage America's wars, but they are unanimous in their gratitude towards the people who fight them. Meanwhile, any proposals that might curb benefits usually run into a powerful and organised lobby for active and retired servicemen. Its umbrella group, the Military Coalition, lists 33 organisations with 5.5m members.

Basic pay is required by law to grow in line with civilian pay. But Congress has consistently added 0.5% to the annual pay rise. Military officers now earn much more than federal civilian employees with the same level of education. And military benefits add up to around 100% of pay, compared with 55% for federal civilian workers. Since 1999 service members have seen their typical out-of-pocket costs for housing eliminated, seen their pensions enriched several times (including a 25% increase) and gained the right to transfer their subsidised college tuition to a child or to their spouse.

But the real budget-buster is health care, which, Mr Gates says, is "eating the Defence Department alive." Since 2000 its annual health-care bill has shot from $17 billion to $49 billion, and the Congressional Budget Office reckons it will reach $65 billion, or 11% of the defence budget, by 2015.

As well as suffering the usual pressures of medical cost inflation, military benefits have become steadily more generous. A retired soldier pays only $460 a year for family coverage (serving members pay nothing), a sum unchanged since the plan, known as Tricare, began in 1995. Private and federal civilian workers pay $4,000-$5,000. Tricare's cost has also been inflated by absorbing, since 2001, any medical expenses not covered by Medicare for over-65-year-olds. Dealing with all these costs is complicated by the fact that there is no obvious way to put a price on what a soldier does.

Congress seems to be starting to get the message. Three times it ignored George Bush junior's proposal to raise Tricare fees; this year, the Republican-controlled House of Representatives is on the verge of granting Mr Obama's request for a (much more modest) 13% increase. The premium would then grow, though only with inflation rather than the higher health-care inflation rate Mr Obama had asked for. Even if the Senate agrees, the savings will be trivial, at less than $7 billion over five years. But it is a sign of the times that, for the first time in memory, military compensation is no longer untouchable.

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Prison overcrowding

A win for dignity

The Supreme Court orders California to make its prisons more humane



Not that unusual

ANTHONY KENNEDY, appointed to the Supreme Court by Ronald Reagan and in effect its swing vote nowadays, has for years been speaking out against the inhumane conditions inside America's prisons. As a native of California, he has also taken an interest in that state's particularly horrendous prison overcrowding. In Los Angeles last year, he called it

"sick" that the state's prison-guards union had sponsored a notorious ballot measure that, with other sentencing excesses, now keeps far too many Californians locked up.

So it was no surprise that Mr Kennedy wrote the majority opinion in a 5-4 decision by the court this week that orders California to reduce its prison overcrowding. Full capacity is defined as one inmate per cell, which in California currently means 80,000 prisoners. But California's prisons have at times housed twice as many, with inmates stacked in bunk beds in gymnasiums. At the moment, the prisons are about 175% full. The court order requires that ratio to go down to a slightly less egregious 137.5% within two years.

Overcrowding has meant not only more violence but woefully inadequate health and mental care, with more deaths and suicides. "When are you going to avoid or get around people sitting in their faeces for days in a dazed state?" Justice Sonia Sotomayor testily demanded of a lawyer representing California last November. Mr Kennedy, in his opinion this week, referred to an inmate who had been held "in a cage for nearly 24 hours, standing in a pool of his own urine, unresponsive and nearly catatonic."

Such conditions are, in Mr Kennedy's words, "incompatible with the concept of human dignity" and amount to unconstitutional "cruel and unusual punishment". The four judges who are considered liberal agreed; the four conservatives did not. For Justice Samuel Alito, the case was a matter not of dignity but of public safety. The decision, he said, will force California to release "46,000 criminals-the equivalent of three army divisions".

That is quite an exaggeration, and not only in numbers. First, the decision itself does not order releases. In theory, California could build new prisons or send inmates out of state to reduce the ratio to 137.5%. Given the state's budget crisis, that is admittedly unlikely. But California can also transfer inmates to county jails. As it happens, Jerry Brown, the governor, is trying to do that anyway, and is haggling over the details with local administrations.

More generally, many prisoners can indeed be released without any threat to public safety. What caused this overcrowding in the first place were the draconian sentencing laws that now unnecessarily keep huge numbers of entirely non-violent inmates behind bars: for smoking dope or writing bad cheques, say, or for missing parole appointments.

More puzzling yet was the tone of the other dissent, by Antonin Scalia. Calling the proceedings "a judicial travesty", Mr Scalia wrote that the decision will benefit inmates who "will undoubtedly be fine physical specimens who have developed intimidating muscles pumping iron in the prison gym." That was the language of sarcasm, not dignity.

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Conservatives and criminal justice

Right and proper

With a record of being tough on crime, the political right can afford to start being clever about it



THE word commonly used to describe a politician who publicly announces he wants to send fewer criminals to prison is "loser". But back in February there was David Williams, president of Kentucky's Senate, speaking in favour of a bill that would do just that. The bill in question would steer non-violent offenders towards drug treatment rather than jail. It is projected to save $422m over the next decade, and will invest about half those savings in improving the state's treatment, parole and probation programmes. Mr Williams, who believes Kentucky "incarcerates too many people at too great a cost," praised the bill for recognising "the possibility for forgiveness and redemption and change in someone's life". It passed the Republican-controlled Senate 38-0, and on May 17th Mr Williams went on to win the Republican nomination for governor.

Mr Williams and his Republican colleagues join the swelling ranks of conservatives who have taken up the cause of sentencing and prison reform. In February Nathan Deal, Georgia's Republican governor, announced a bill to create a council to recommend changes in how his state sentences criminals. On May 11th Oklahoma's Republican governor, Mary Fallin, signed a law expanding alternatives to jail for non-violent offenders. This follows similar measures in South Carolina and Texas, both of them conservative states with Republican governors.

Driving these reforms is a simple factor: cost. Over the past two decades, crime rates have fallen but prison populations have risen. More people have been jailed for more crimes-particularly non-violent drug-related crimes-and kept there longer. Pat Nolan, a former Republican legislator from California who served time in prison for racketeering and now works for Prison Fellowship, a prison ministry, laments that "we build jails for people we're afraid of, and fill them with people we're mad at."

And fill them America has. Over the past two decades, spending on prisons has grown faster than any segment of states' budgets except Medicaid. Between 1989 and 2009 prison spending in Kentucky grew by 340%. Georgia spends $1 billion a year on corrections, despite spending less than the national average on each inmate.

Texas began tackling these problems in the last decade. In 2003 it started mandating probation rather than prison for first-time offenders caught with less than a gram of hard drugs. Two years later it gave the probation board more money to improve supervision and treatment programmes. In 2007, faced with predictions that it would need over 17,000 new prison beds by 2012, requiring $1.13 billion to build and $1.5 billion to operate, Texas allocated $241m to fund treatment programmes. Since 2003 crime of many kinds has declined in Texas. Between 2007 and 2008, Texas's incarceration rate fell by 4.5%, while nationally the rate rose slightly. Both juvenile crime and the number of juveniles in state institutions have declined.

These reforms saved money. In slowing recidivism, they turned prisoners from tax burdens into taxpaying citizens. And they acknowledged something that tough-on-crime rhetoric has too long ignored: almost everyone in prison will eventually return to society. Better they return as good neighbours and productive citizens.

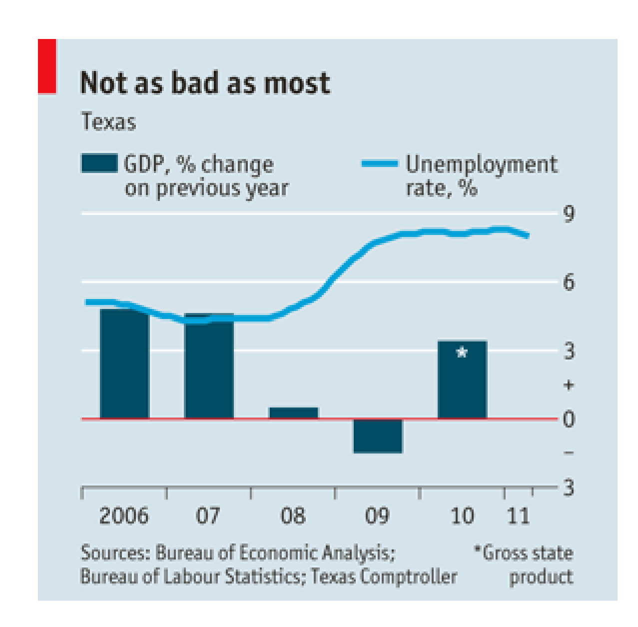
The fact that the reforms that produced these encouraging figures came from hang-em-high Texas, and not, say, hippie Vermont, has given them political as well as policy credibility. Grover Norquist, head of Americans for Tax Reform and a

prominent supporter of an initiative called Right on Crime, which advocates criminal-justice reform from conservative ground, argues that "nobody's going to listen to Barney Frank" (a particularly liberal congressman) on these issues. Just as Richard Nixon could open relations with China without being thought soft on communism, so conservatives can push for sentencing reform without being considered soft on crime.

The Texas budget

Closing the gap

Texas's legislature reaches for the axe



THE Texas legislature meets for just 140 days every other year. The schedule is an artefact of the state's agrarian days, and it leaves little time for tackling the big issues. As the session comes to an end, the capitol is often aglow with late nights and high feelings. With this year's last day looming on May 30th, the past few weeks have been busy.

Lawmakers passed a bill that would legalise "noodling", the practice of catching catfish by hand, and Western swing was named the official state music. But this was mere background to the drama over the state budget. As the session opened in January the state faced a $27 billion shortfall for the 2012-13 biennium, or roughly a quarter of the state's projected general-revenue spending over that period.

The comptroller, Susan Combs, had estimated that Texas would collect $77.3 billion in funds available. But $4.3 billion of that would have to go to cover a shortfall in the current budget cycle, which developed after the downturn caused the state to collect less money than it had expected.

Another chunk would be diverted to the state's "rainy day" fund. In other words, Ms Combs said, Texas would have $72.2 billion available to spend, compared with $87 billion last time round, including stimulus money. At the same time, because of immigration and demographic changes, the state's obligations have grown. Think-tanks, looking at the formulas that fund schools and health programmes, put the projected outlays at $99 billion.

How to close a $27 billion shortfall? With a bit of luck, some creative accounting, and harsh cuts. Facing such grim forecasts, legislators grudgingly agreed to spend $3.97 billion from the rainy day fund to cover the shortfall in the current biennium, which actually has shrunk a bit. That freed an additional $4 billion of current revenues for the next budget. And since sales-tax and oil receipts have proved higher than expected, a sign of the improving economy, last week Ms Combs announced that an extra $1.2 billion would be available. Similarly, property-tax receipts were looking up a bit: $800m there.

That brought the state to nearly $78.5 billion, with a bit more expected to come in if the economy continues to improve. But it left some $20 billion in unfunded commitments relative to the earlier projections. With Republicans dominating state government, there was little question of raising revenue. On May 20th the House and Senate agreed to spend $80.6 billion over the 2012-2013 biennium. The legislators achieved some savings by simply ignoring some of the projected increases. The state will allocate no more for Medicaid, for example, even though its burden will increase and generous federal assistance is available.

The bulk of the reductions come from cuts. Democrats are dismayed, as are some moderate Republicans. School districts may even try to sue the state for more money. Cuts to higher education will limit the financial aid available to tens of thousands of students.

These consequences and controversies could have been predicted. The root cause of the current shortfall is structural rather than cyclical. Texas has no personal-income or capital-gains taxes, instead relying heavily on the sales tax, the property tax and various business taxes. Efforts to raise any of these taxes or to create new revenue streams are so unpopular that they are rarely even mentioned in Austin. And the voters are no help. In a February 2011 poll by the University of Texas and the *Texas Tribune*, for example, a majority of respondents favoured closing the gap at least halfway through cuts, but there was no consensus beyond that. The least-cherished programme was early childhood education, a tiny slice of state spending. Any budget deal would have been unpopular.

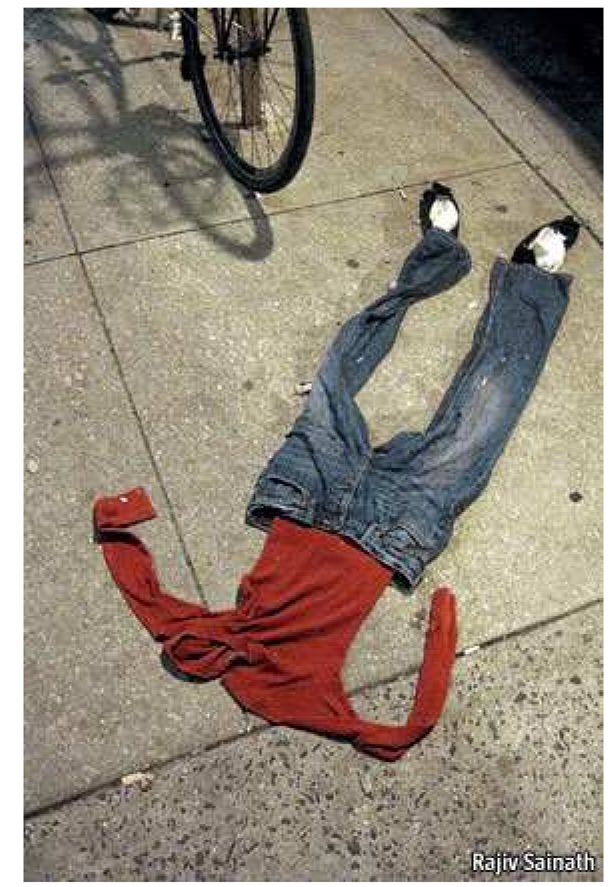
All this fiscal toughness is doing the governor, Rick Perry, no harm. His ten-year oversight of the state's long boom, interrupted by only a mild recession, has led to calls for him to join the contest for the Republican nomination. He insists he is not interested. But it is nice to be asked.

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The Rapture

Paradise postponed

The world still awaits God's judgment



Left behind

ON MAY 16th the Centres for Disease Control and Prevention, in an odd attempt at light-heartedness, published a brief guide to emergency preparedness in the event of a zombie invasion or other catastrophes. Useful advice, but zombies were far from anyone's mind. America was girding for an even more serious event. Word had spread that the Rapture would take place on May 21st. There would be a horrible earthquake, and Jesus would take believers to heaven. Those left behind would suffer Armageddon, concluding with the earth's total annihilation (scheduled for October).

These predictions came from Harold Camping, the California-based founder and president of Family Radio, a national network of Christian radio stations. He argued that the world was in moral decline, with the widespread acceptance of gay marriage the clearest sign. His followers took the message to billboards and flyers. Some thoughtfully arranged for atheists to look after their pets.

Mr Camping, who now says that the Rapture did occur, but invisibly, may be outside the mainstream, but the end-of-days is hardly a marginal obsession. A surprisingly large number of Americans are keenly interested in the subject. Several years ago, for example, the "Left Behind" books-a series of novels dramatising the tribulations of those not taken up to heaven-sold tens of millions of copies. And those who do not anticipate the Apocalypse may nevertheless subscribe to a dramatic view of God's justice. Earlier this year a pastor in Michigan published a book questioning whether hell exists, triggering a fierce counter-attack from evangelicals.

In the run-up to the predicted Rapture, non-believers prepared for a field day. Some composed careful tableaux of empty clothing and abandoned dinners. On Facebook, more than 800,000 people signed up to attend post-Rapture looting parties.

The scoffers proved correct. May 21st came and went with only the usual suffering of a day on earth. It was a lucky escape; the political and economic ramifications would have been severe. And it may be that the prospect of it led some people to reassess their morals, never a bad thing.

But if the world is to be judged it will not be on Mr Camping's terms. Shortly after the Rapture failed to materialise, an interview appeared with Jim Daly, the president of Focus on the Family, probably America's most powerful conservative Christian organisation. He noted that most of the younger generation favours gay marriage. "We've probably lost that," he concluded. Heaven can wait.

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The kosherest nosh ever

America's mighty pro-Israel lobby may be less durable than it looks



BARACK OBAMA was visiting London at the time. Salam Fayyad, the Palestinian prime minister, was in a Texas hospital with heart trouble. These gentlemen should count themselves lucky they were not there to hear Binyamin ("Bibi") Netanyahu speak to the American Congress on the morning of May 24th. Watching might not have helped their blood pressure. Days after his quarrel over the 1967 borders with Mr Obama, Israel's prime minister turned in a bravura performance in the absent president's backyard, earning a score of standing ovations and making it clear that although presidents come and go, Israel enjoys the support of Republicans and Democrats alike on Capitol Hill.

What explains this enduring support? The "lobby", for a start. This week, as more than 10,000 supporters flooded Washington for the annual conference of the American Israel Public Affairs Committee (AIPAC), the lobby strutted its stuff. Mr Obama spoke on the first day of the meeting, before flying off to Europe. On the second day, 67 senators and 286 members of the House joined the 10,000 at the gala dinner-perhaps the biggest kosher nosh in history. On the third, after Mr Netanyahu's triumph on the House floor, delegates ascended the Hill to conduct more than 500 separate lobbying meetings. Behold, the congressman that keepeth an eye on his Jewish vote shall neither slumber nor sleep.

That Jews count in American politics is not in doubt. They are conscientious voters and a formidable source of campaign financing. Hence the relish with which Republicans pounced on evidence of a rift between Mr Obama and Israel over the 1967 borders. Although the disagreement (insofar as it was not synthetic) was about emphasis rather than substance, Eric Cantor, the (Jewish) leader of the Republican majority in the House, was "very concerned". Mitt Romney, supposedly leading the race to become the Republican presidential nominee in 2012, proclaimed that Mr Obama had "thrown Israel under the bus".

So much for politics stopping at the water's edge. The Republicans would dearly love to turn American policy on Israel into a wedge issue for 2012. But this may well be impossible. For a start, Mr Obama, who at AIPAC promised his "ironclad" support for Israel's security, has already put America's money where his mouth is. He has provided what Israel admits to have been unprecedented co-operation on defence, and clamped harsh sanctions on Iran. And even if he could somehow be portrayed as wildly hostile to Israel, the Democrats on the Hill cannot be. Smelling danger, many joined the Republican scolding of the president. Harry Reid, the Democrats' leader in the Senate, did not explicitly repudiate Mr Obama's reference to the 1967 borders, but made his displeasure plain. "A fair beginning to good-faith talks means that Israel cannot be asked to agree to confines that would compromise its own security," he said.

More to the point, most Jews vote Democratic, and will probably continue to do so no matter what they think of the president's attitude towards Israel. In this week's *Economist*/YouGov poll, 33% of Americans thought that Mr Obama sympathised more with the Palestinians and only 11% that he sympathised more with the Israelis. Frank Luntz, another pollster, says that most American Jews oppose Mr Obama's positions on Israel. Nonetheless, he predicts that an overwhelming majority of Jews will vote to re-elect the president in 2012. The explanation for this apparent paradox is simple. Most American Jews support Israel, but most do not care about it enough for it to affect the way they vote. Like other Americans, they are likelier to be influenced by past voting habits-and how they think the economy is faring.

In 2008, 78% of American Jews voted for Mr Obama, mostly because he was the Democrat. That proportion, cautions Bill Galston of the Brookings Institution, "is not Planck's Constant". Republicans are tantalised by Florida, a swing state with many older Jewish voters. Yet even there it is hard to see Israel as a decisive issue. Jews may not like Mr Obama's stance on Israel, but Mr Luntz says that they are also unhappy about the influence of the tea-party movement on Republicans. Sam Abrams, a political scientist at Sarah Lawrence College in New York, cannot see any Republican being capable both of winning the nomination of the party in its current mood and appealing to Jewish voters.

Marrying out, and losing interest

Such trends are reassuring for Democrats. Perhaps surprisingly, it is AIPAC that has less reason to feel assured. This is because the attachment that American Jews feel to Israel is not only too weak, in most cases, to sway their vote. It may also be waning. Steven Cohen of the Hebrew Union College in New York is one of several scholars to say that apart from the Orthodox minority, younger Jews in America show less attachment to Israel than their elders.

Why this is happening is fiercely debated. One theory blames intermarriage; another that the young are alienated by Israel's policies. Peter Beinart, the author in 2010 of a scathing critique of the Jewish establishment in the *New York Review of Books*, says that by drifting right and defending whatever Israel does, AIPAC and other leading Jewish organisations have become "intellectual bodyguards for Israeli leaders who threaten the very liberal values they profess to admire." He says that a Zionism that emphasises Jewish victimhood and allows no empathy for the Palestinians is losing its resonance with younger Jews.

For the present, of course, AIPAC remains highly effective. It still towers over J Street, its doveish rival. Also secure for now is Israel's standing in the United States. It is, after all, not only Jews who favour Israel over the Palestinians: just ask the evangelicals. As Mr Netanyahu told Congress, a close affinity binds the two nations. But if young American Jews really do turn away from Zionism, or are turned off by it, everything could one day change.

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Mexico's presidential election

Campaigning against crime

Each governed by a presidential hopeful, Mexico City and Mexico State seem safer than the rest of the country. What lessons do they offer?



THE spring getaway in Mexico sees long lines of cars escaping the fug of Mexico City for the breezy Pacific coast. But recently traffic has been going the other way. Mexico is in its fifth year of a ramped-up war against organised crime, which has caused violence to flare in states that find themselves on the drug route to the United States. Many of those who can afford it are moving to the capital, where the murder rate last year was half the national average and much lower than that in some big American cities, including Washington.

The policing of Mexico City will come under particular scrutiny as next year's presidential election nears. That is because governance of the sprawling capital is split between Marcelo Ebrard, the mayor of the Federal District, which encompasses the heart of the city, and Enrique PeÃ±a Nieto, the governor of the surrounding Mexico State, which mops up just over half of the capital's 20m residents. Mr PeÃ±a is the front-runner for the presidential nomination of the formerly ruling Institutional Revolutionary Party, whereas Mr Ebrard is vying to carry the flag of the left-of-centre Party of the Democratic Revolution. (His main rival for the nomination, Andres Manuel Lopez Obrador, is himself a former mayor of the capital.)

Mr Ebrard argues that mob recruitment can be stifled by getting young people into school and jobs. Mr PeÃ±a wants to hit gangsters' finances by shrinking the informal economy. But voters may take more note of their records in office than of their campaign promises. Miguel Mancera, the chief prosecutor in the Federal District, boasts that the murder rate there is now lower than in several states that were previously considered much safer than the metropolis. Alfredo Castillo, his opposite number in Mexico State, points out that the homicide rate there is lower still.



The reality is not as rosy as it sounds. The Federal District has indeed moved down the murder league, but only because other places have deteriorated faster. In fact it saw 25% more murders last year than in 2006, when Mr Ebrard came to power. In Mexico State, a statistical revision a year into Mr PeÃ±a's governorship in 2007 saw the murder rate fall by a startling 59%. Thousands of non-criminal deaths had been misclassified, the chief-prosecutor at the time says. Officials stand by the new numbers, but others are not so sure. Mexico State's criminal statistics are "not very orderly, reliable or even available," says Juan Francisco Torres Landa of Mexico United Against Crime, a pressure group.

Nine out of ten crimes go unreported in both territories, which means even accurate data on recorded crime would be of limited value. Surveys by ICESI, a research organisation, suggest that whereas the Federal District still has a higher incidence of crime than Mexico State, the latter has been hit harder by drug mobs. Residents there now worry about security almost as much as those in the Federal District; criminals are more likely to carry weapons than in any other state.

Whereas in 2007 there were many more narco-linked murders in the Federal District than in Mexico State, last year Mr PeÃ±a's territory saw three times as many such killings as Mr Ebrard's. Comparable neighbourhoods seem to do better in the Federal District: Iztapalapa, probably its grittiest *barrio*, with 1.8m people, had less than half as many narco-related murders last year as Nezahualcoyotl, a district of similar average income with 1.1m people, which lies the other side of the state line.

Saturation policing helps maintain order in the Federal District. Mexico has more cops per head than the United States. In the capital one person in 100 is a police officer. Even when those guarding public buildings are removed from the total, there are more than twice as many police per person as in Mexico State. There are several army bases, and 11,000 new CCTV cameras keep watch.

It helps, too, that the city has a single police force, whereas in all other states there are also dozens of often-corrupt municipal forces (Mexico State has 125). Pressure from mayors has stalled the federal government's plan to abolish municipal forces. Mr Castillo envies his counterpart's ability to summon 5,000 officers to police a football match, for instance. "When they captured *La Barbie* [Edgar Valdez Villarreal, a narco kingpin arrested in Mexico State last year], they asked him why he hadn't gone to the Federal District. He said it was attractive but operationally difficult simply because of the presence of all the police," says Mr Mancera.

"Organised crime does not necessarily involve violence," cautions Ernesto Lopez Portillo of the Institute for Security and Democracy, an NGO. The Federal District may see relatively few mafia-linked murders, but it hums with illegal business, from the pirate-DVD vendors on every street corner to the enormous Tepito market, where everything from exotic animals to automatic weapons freely changes hands. The city's airport and banks attract plenty of shady custom. There is "no doubt" that the gangs which run the capital's illegal markets are linked to the drugs "cartels", Mr Lopez Portillo says.

Corruption makes this possible. The police and prosecutors of both Mexico City and State are the most open to bribery in the country, according to the Mexican branch of Transparency International, a Berlin-based NGO. This month Mr Castillo's office arrested 16 municipal policemen on suspicion of working with a local criminal gang called "The Hand with Eyes". Tip-offs from corrupt officers cost as little as 1,000 pesos ($85), he says. Little wonder, then, that under 10% of residents of Mexico City and State trust their local officers, among the lowest rates in the country. Civic organisations have taken to going in groups to report crimes and setting up advice booths outside prosecutors' offices.

The records of both Mr Ebrard and Mr PeÃ±a on security are greatly flattered by the failures of their counterparts in some other parts of Mexico. It is worrying that despite lying far from the centres of the drugs business they preside over such thoroughly corrupt criminal-justice apparatuses. If Mr Ebrard has a slight edge in keeping a lid on violence, that is mainly because he has a big, unified police force. That is something both men might bear in mind on the way to the presidency.

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Argentina's presidential race

Will she, won't she?

The unusual coyness of Cristina Fernandez



FOR months most Argentines have assumed that Cristina Fernandez de Kirchner will be re-elected as their president in a vote due in October. Thanks to a strong economy, a hapless opposition and a wave of sympathy after the sudden death last year of Nestor Kirchner, her husband and predecessor, her candidacy seems unstoppable. The only cause for doubt is that Ms Fernandez has not yet said that she will run. With just a month left for candidates to announce, she is keeping the country guessing. "I'm not dying to be president again," she said on May 12th. "I've given everything there is to give."

The commentariat in Buenos Aires has dismissed Ms Fernandez's indecision as an artful political tactic-just as it was in 2007, when she and Mr Kirchner waited until the last possible moment to announce which of them would run. The longer she dallies, says Sergio Berensztein of Torcuato Di Tella University, the longer she can remain above the electoral fray in her popular roles as president and widow. Luis Tonelli, a columnist for *Debate* magazine, calls it a "clamour operation", intended to prompt a groundswell of public demand for her candidacy. And Manuel Mora y Araujo of Ipsos, a polling company, sees it as a warning to Hugo Moyano, the head of Argentina's umbrella trade union: if he does not reduce his demands for political influence, Ms Fernandez could quit, leaving a far less labour-friendly successor.

The president has every reason to seek another term. Argentina's economy is still booming, fuelled by high prices for a bumper harvest of soyabeans and the rapid growth of neighbouring Brazil. According to the UN's Economic Commission for Latin America and the Caribbean, Argentina's GDP expanded by 8.4% last year; forecasters expect 5-6% in 2011. Mr Kirchner's death boosted his wife's approval rating by 25 points. And while she grieves-she has swapped glamorous designer outfits for simpler black attire, and often breaks down during public events-any criticism of her sounds mean-spirited.

She has also shown political agility. In March and April she swerved left, criticising NATO's bombing of Libya, and using the state's shareholdings through the nationalised pension system to try to put more government directors on the boards of big private companies. Those moves helped dissuade Fernando Solanas, a leftist filmmaker who stood for president in 2007, from running again. She then tacked to the centre, starting a squabble with the unpopular Mr Moyano, whom she accused of extortion after a series of strikes.

Several other potential opponents have dropped out. Julio Cobos, the vice-president, who turned on her during a 2008 tax fight with farmers, has said he will not run. Mauricio Macri is standing for a second term as mayor of Buenos Aires at an election to be held on the same day as the presidential vote. And Francisco de Narvaez, a businessman who beat Mr Kirchner in a congressional election in 2009, cannot legally stand, since he was born abroad to foreign parents. That leaves only Ricardo Alfonsin, the son of a former president; Elisa Carrio, an eternal anti-establishment candidate; and possibly Eduardo Duhalde, Mr Kirchner's predecessor as president. Mr Alfonsin currently polls in the teens and the other two are in single digits.

But might it be that Ms Fernandez's ambivalence is not in fact feigned? Many of the hard decisions she has put off will soon have to be taken. The government has doctored the inflation index since 2007, keeping the official rate around 10% while prices have risen two to three times as fast. Cleaning up those numbers would force her to cool the economy to reduce inflation. Argentina's budget surplus has vanished, and its trade surplus has been artificially boosted by curbs on imports of drugs, processed food and cars. The rate of investment remains below the 2007 figure.

She also has personal reasons not to run: she has developed high blood pressure, and her daughter is said to be keen for her mother to step down. But the president has been a political animal all her life. And she doubtless wants to see the continuation of the leftist, populist policies she and her husband have implemented. As she said in December to Olga Wornat, her biographer and a longtime friend, "This is what Nestor would want me to do."

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A settlement in Honduras

Homeward bound

Manuel Zelaya will return to his country, and his country to the world

NEARLY two years after he was hustled onto a flight and into exile, Manuel Zelaya at last looks set to return to Honduras. Mr Zelaya's presidency came to an abrupt end in June 2009 when soldiers sent him packing to Costa Rica after the Honduran Supreme Court ordered his arrest for illegally pressing on with an informal referendum on constitutional change. His ousting, which a truth commission is expected to describe as a coup when it reports next month, led to many countries breaking diplomatic ties with Honduras, and its suspension from the Organisation of American States (OAS).

On May 22nd Mr Zelaya signed a deal with his country's current president, Porfirio Lobo, who was elected five months after the coup. The agreement, brokered by Colombia and Venezuela, confirms that Mr Zelaya and his former ministers can return home and practise politics without fear of arrest, and that they will be free to pursue a referendum on the constitution provided they go about it in a legal way. Mr Zelaya, who when in office allied with Venezuela's leftist president, Hugo Chavez, is expected to arrive in Tegucigalpa, the capital, on May 28th, for an initial visit of a few days. It is now "pretty certain" that the OAS will vote Honduras back in, says Jose Miguel Insulza, its secretary-general-perhaps as soon as this week.

The presence of Mr Zelaya's mustachioed, Stetson-wearing figure in Tegucigalpa will draw crowds of thousands. A "resistance" movement, set up following the coup, includes many who were alarmed by his ejection at gunpoint even as they were disappointed by his mediocre presidency. Support for Mr Lobo has slipped to 51% as he battles a sickly economy and rampant drug mobs that have given Honduras one of the world's highest murder rates. Mr Zelaya did little to combat these problems while in office, but he will find plenty to criticise from opposition. Honduras's constitution restricts presidents to a single term-that is the clause that Mr Zelaya apparently wanted to change. Unless he succeeds in doing so, Xiomara Castro, his wife, may run at the next election in 2013.

Honduras's return to normal political life cannot come too soon for the rest of Central America. Nicaragua, a Chavez ally, had refused to recognise Mr Lobo's government. The spat has disrupted trade between the seven small countries, and hampered efforts to fight the drug mobs moving to the isthmus from Mexico. On May 22nd all of the Central American presidents gathered together in the same room for the first time since the coup.

Most donors have already restored aid to Honduras; now the government hopes private investment will follow. The return of Mr Zelaya may also dampen outside criticism of the new government's record on human rights. But the problems are real. One is a rash of killings of journalists. On May 23rd a 70-year-old newspaper boss was shot six times in Tegucigalpa, but survived; the previous week, the owner of a television station was murdered.

The agreement marks another diplomatic success for Colombia's Juan Manuel Santos, who since becoming president last year has patched up his country's relations with its cantankerous neighbours, Venezuela and Ecuador. Mr Chavez, meanwhile, will be content to have restored his man to his country, if not to power. His hold over Mr Zelaya seems to

continue: a Central American politician familiar with the negotiations reports that the agreement was struck when Venezuela tired of Mr Zelaya's demands for more concessions, and ordered him to take the deal he had. Mr Zelaya had reportedly wanted the resistance movement to be made into a political party by decree (bypassing the usual requirement to collect signatures), and for the agreement to make reference to "refugees" or "exiles". Neither concession materialised, which may explain Mr Zelaya's slightly glum appearance during the signing ceremony in Colombia. Most other Hondurans will be cheerful that at last their country's political and diplomatic life can return to what counts for normal.

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A Canadian hazard

Moose v motorist

In Newfoundland both usually lose



Put them on a low-salt diet

THERE have been several cases in which well-meaning boffins have introduced a new species to overcome one problem only to create another. After Australia brought the cane toad from Hawaii to control a beetle that eats sugar cane, the amphibian spread like a plague. The import of African bees to Brazil to increase honey yields set off swarms of "killer" bees throughout the Americas. And so it is with the moose in Newfoundland.

The moose may be a Canadian icon, but in the island of Newfoundland it is an alien, introduced a century ago when local leaders reckoned their presence would attract hunters and tourists to what was a struggling British colony. Unlike in the rest of Canada, the moose has no natural predators on the island, where the native wolf went extinct. There are now around 150,000 of the lumbering giants in Newfoundland. That has drawn hunters. But the habit of the moose to wander across highways in the dark has made it a road hazard responsible for around 700 collisions a year.

A bull moose can weigh up to 550 kilos. When a car hits its long, spindly legs, that mass comes hurtling through the windscreen, killing or crushing those in the front seats. Two Newfoundlanders paralysed in collisions filed a class-action suit in January claiming the government was not doing enough to protect drivers.

The Newfoundland authorities have responded with an information campaign. This stresses that moose are unpredictable, able to swim as fast "as two men paddling a canoe" or run at 35 miles (56km) an hour. It urges motorists not to drive at night, especially between May and June when juveniles, who tend to be even dimmer than their parents, are wandering about. The government is also clearing brush from verges to make moose more visible. It will grant 5,000 extra hunting

licences this year and extend the season by a week. Some locals want more fences along the highway and better lighting at intersections.

Research in neighbouring Quebec has found that putting less salt on roads makes them less attractive to moose, who make a beeline for salty roadside pools of water. But unless unlikely ways are found to make icy roads less treacherous, the risk will be that one lethal hazard is replaced by another.

Liberalism under attack in China

Boundlessly loyal to the great monster

But at least the liberals are fighting back



Getty Images

ON MAY 23rd four people went to a police station in Beijing with a petition demanding justice. Victims of official wrongdoing often make such trips, and usually they are given short shrift. But this was no ordinary group of the downtrodden. The petition bore the names of nearly 10,000 people accusing a liberal intellectual of slandering Mao Zedong and attempting to overthrow the Communist Party itself. Emboldened by a chill political wind, diehard Maoists in China are rising to confront their critics.

The Maoists' appeal for the arrest of Mao Yushi, a well-known economist (and no relation of the late chairman), is their most concerted public attempt in many years to put pressure on the government. A clutch of Maoist websites frequently vilify intellectuals such as Mr Mao. But campaigning openly for someone to be put on trial is unusual. It is a symptom of a recent escalation of ideological struggles between China's West-leaning liberals and conservative hardliners. The Maoists froth at the extreme fringe of the hardline camp. But their cause is gaining headway as the authorities wage an intense crackdown on dissent, putting pressure on NGOs and arresting or otherwise making vanish dozens of government critics.

Mr Mao, who is 82, is the soft-spoken head of a remarkably independent think-tank, the Unirule Institute of Economics. His crime, say the Maoists, was his article on April 26th on a blog hosted by *Caixin*, an outspoken Chinese news organisation. The article, "Restore Mao Zedong as a Man", is among the most scathing attacks on the chairman seen in China's mainstream media. It was later removed from *Caixin*'s website and also disappeared from several others that had reposted it. Propaganda apparatchiks clearly wanted it eradicated.

All year the Communist Party has been jittery about the possible spread of Arab-style "jasmine revolution" to China. (The word "jasmine" has been all but banned in the media, as has the flower itself in markets.) Now the party is all the more anxious as it prepares to celebrate, on July 1st, the 90th anniversary of its founding. It does not want the occasion to be clouded by misgivings about the man who led it to power. Mao is too intimately linked with the party's identity to allow any further examination of the "mistakes" the party sheepishly admitted he made, five years after his death in 1976.

Mr Mao's essay said the party's takeover of the country in 1949 did not bring happiness to China: "On the contrary, it plunged [the Chinese] into an abyss of misery for 30 years." Mr Mao said 50m Chinese died as a result of Mao's policies, "for which he felt not the slightest remorse". He did not fully account for the figure, but the 30m deaths he attributed to Mao's "Great Leap Forward" in the late 1950s is a mainstream estimate among historians; meanwhile around 2m were slaughtered in various political campaigns. A portrait of "the backstage boss who wrecked the country and ruined the people" was still hanging in Tiananmen Square, Mr Mao noted. (The boss's corpse also lies, unmoved, in the square.) It was time, Mr Mao said, to end all the "idolisation" and "superstition" surrounding Mao and assess him as an ordinary man.

Mr Mao says that people have since telephoned him, threatening to beat him up. Language on the internet is strong. "The whole nation is waiting for the dawn, the dawn of a day when Mao Yu-Shit (sic) and other anti-Mao reactionaries who vilify Mao are annihilated," one person commented on Utopia, a website which is leading the campaign to get Mr Mao indicted. Utopia accuses Mr Mao of subversion and libel. It says funding given to Unirule by the Ford Foundation, based in New York, is evidence of "collusion" with foreigners in his alleged crimes.

Among those named on the website as supporting the campaign are two of the chairman's relatives: Mao Xiaoqing, his niece, and Liu Siqi, the widow of Mao's eldest son, Mao Anying, who was killed in 1950 fighting in the Korean war. Though no one on the list is highly influential, the speed with which Utopia has collected so many names underscores how much popular support Mao continues to enjoy. In some Chinese taxis, talismans of Mao are displayed for luck.

Utopia claims that the police have promised to take the case seriously. But even in its current chilly mood, the party will probably be cautious. It is already facing a barrage of international criticism over the early April arrest of Ai Weiwei, a dissident artist. Mr Ai has now been accused of tax-related offences, as a convenient way to silence a critic without having a contentious political trial like that of Liu Xiaobo in 2009. Mr Liu's sentence of 11 years in prison for subversion helped him win the Nobel peace prize, to China's fury.

Maoist muscle-flexing, however, is not to be dismissed. The party chief of Chongqing municipality in south-western China, Bo Xilai, has become a darling of the Maoists for his attempts to revive a Mao mini-cult. Chongqing citizens are being enjoined to sing Mao-era songs, and officials to go down to the countryside to live with peasants for a few days each year. Few would have guessed at such tastes in Mr Bo when he served as a provincial chief in north-eastern China and as minister for commerce before taking up his current job. But he is the son of one of Mao's comrades-in-arms, Bo Yibo (though persecuted by Mao, Bo Yibo remained a hardliner). Mr Bo is also is a populist who clearly feels that tapping into popular reverence for Mao will help propel him to greater things. He aims to become one of China's most powerful leaders in a shuffle next year. Some analysts believe he may take over the crucial portfolio for domestic security. By cosying up to Maoists, some reckon, Mr Bo could be unleashing forces that make China even less tolerant of the beleaguered liberal camp.

A relative liberal, Wen Jiabao, the prime minister, in a meeting with a visitor from Hong Kong in April, said two forces were causing difficulties for China's reform efforts. One, Mr Wen said, was "vestiges of feudal society" (party-speak for conservatism). The other, he added, was the "pernicious influence of the Cultural Revolution". Apologists for that orgy of violence, destruction and persecution in the latter years of Mao's rule abound in China's Maoist circles. Qin Xiao, a former chairman of China Merchants Bank and a prominent moderniser, warned in an interview this month that the "evil habits" of the Cultural Revolution were in danger of resurfacing. At least this time, in contrast to earlier hardline crackdowns, some liberals are fighting back.

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China in Laos

Busted flush

How a Sino-Lao special economic zone hit the skids



Soon all this will be jungle again

AT HOME and abroad, China is a byword for fast-track development, where yesterday's paddy field is tomorrow's factory, highway or hotel. Less noticed is that such development can just as quickly go into reverse. Golden City, in Boten, just over the border from China in tiny Laos, is a case in point.

When a Hong Kong-registered company signed a 30-year, renewable lease with the Lao government in 2003 to set up a 1,640-hectare special economic zone built with mainland money and expertise, Golden City was touted as a futuristic hub for trade and tourism. The builders promptly went to work, and a cluster of pastel blocks rose amid the green hills of northern Laos. Thousands of Chinese tourists and entrepreneurs poured into the enclave, drawn largely by the forbidden pleasures and profits of gambling, which is illegal in China, except in Macau. Today the main casino, inside a three-star hotel, lies abandoned, its baize tables thick with dust.

The trouble started in December, when Chinese gamblers found that the operators refused to let them leave until they had coughed up for betting losses. Officials from Hubei province apparently negotiated the release of several "hostages", but many more continued to be held against their will. Accounts in the Chinese media say that casino recruiters lured gamblers with offers of free travel and hotel rooms, only to be kept captive and beaten when their credit ran out. Lao villagers swap grisly tales of corpses dumped in the river.

Chinese authorities have since put the boot into Boten. In March the foreign ministry warned citizens not to gamble in Laos and accused Golden City of cheating its cross-border customers. It said it had demanded that Laos close down the casino. Last month the casino duly shut, and the smaller gaming halls have since gone too. The 232-room hotel, which is almost empty, will be next.

Most shop and restaurant owners have packed up and left, as have the Thai transvestite show and the legions of prostitutes. Stricter visa rules for Chinese tourists have added to the squeeze. A Lao policeman, who admits to having nothing to do, puts the town's dwindling population at 2,000, down from 10,000 at its peak. The enclave's economy seems to have collapsed just as the builders hit their stride with a new high-rise hotel and a shopping centre bristling with columns in the classical style.

Golden City says it has pumped $130m into the project's first phase, including funds from outside investors. A company official, Ginger He, puts a brave face on things, arguing that the slump is a chance to rebrand the enclave as a wholesome tourist destination and import-export zone. She blames the bad publicity on shady Chinese concessionaires who ran the

card games in the casino-as if the company had expected angels. Golden City has since declared force majeure to revoke its contracts. Investors might wish to sue under Lao law. But Miss He points out that China had ordered Laos to close the casino. "Little brother cannot fight with big brother," she says.

At the best of times, cross-border casinos are risky investments, since China often cracks down on outbound gamblers. Warlords in Myanmar have previously felt the consequences, with gambling dens left to rot in the jungle after borders grew tighter. Business folk in Boten say the action may have moved to casinos elsewhere in Laos and Myanmar. A Macau-based company has recently completed a giant riverside casino in the so-called Golden Triangle, where Laos meets Thailand and Myanmar.

But Golden City was supposed to represent more than just a fast buck. The developers persuaded Laos of the benefits of allowing a Chinese-run enclave. Its residents, they said, would "form a huge community and a modern society", in the words of their brochure. The zone also took on some of the trappings of the Chinese state, including uniformed security guards, development slogans and even the Chinese currency. This gave the false impression that it enjoyed official backing. Instead, it became an irritant that Beijing had to put in its place.

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American forces in Japan

Another lost year

Some unspoken truths about Japan's security relationship with America



LESS than a month after a new government took office in Japan in September 2009, American officials talked their Japanese counterparts through a longstanding frustration: stalled plans to build a new airbase for American marines on the southern island of Okinawa. According to confidential minutes of the meeting sent to Washington, DC by the American embassy in Tokyo, leaked by WikiLeaks, Kurt Campbell, an assistant secretary of state, said a new airstrip was necessary because of China's growing military strength. But that could not be discussed publicly, "for obvious reasons".

A few months later Mr Campbell went further, according to another cable. Because of potential threats from North Korea, China and elsewhere, America and Japan faced "the most challenging security environment" in 50 years. However, he said the messages to the public often glossed over that reality. Presumably that too was to avoid offending China, even though it would have helped Okinawans to understand why the new facility is deemed so important.



Exactly a year ago both allies agreed to push ahead with the plan to shut down the Futenma airbase in a dangerously overcrowded part of Okinawa and rebuild it in a less populated area, by the beach at Henoko (see map). They also aimed to move thousands of marines and their families to the American territory of Guam, mostly paid for by Japan. Five days later Yukio Hatoyama, Japan's then prime minister, resigned, in part because of his broken promise to the people of Okinawa to move the base off the island altogether.

Today the two sides are no closer to implementing the plan than they were on the day it was signed. Okinawans still fiercely oppose it, despite collusion by American and Japanese officials and politicians to put as rosy a spin on the details as possible.

For instance, the WikiLeaks cables show that the number of marines and their dependents slated for removal to Guam has been inflated in order to soften opposition. Last year's agreement mentions the removal of about 8,000 marines and 9,000 dependents. But an American embassy cable in 2009 says that when the plan was formulated in 2006, "both the 8,000 and 9,000 numbers were deliberately maximised to optimise political value in Japan." Okinawa officials suspect that the number of Guam-bound marines may be as few as 3,000-if they go at all.

When it came to power in 2009, the ruling Democratic Party of Japan, which had opposed the relocation plan in opposition, came under intense pressure from Washington to push ahead with it. American officials urged the new government not to discuss alternatives in public, warning of a strong American reaction if it did, according to WikiLeaks. Yet this month three senators including Carl Levin, chairman of the Senate Armed Services Committee, and John McCain, the committee's ranking Republican, went public with their own alternative, describing the current Futenma relocation plan as "unrealistic, unworkable and unaffordable". In Japan their views have caused a stir.

The senators argue that instead of building a costly new facility, the marines should be moved to a huge existing base in Okinawa called Kadena, and that part of the American air force currently at Kadena should be relocated to Guam. Okinawans living near Kadena stridently oppose the marines, but the senators say the idea could free up land and reduce noise levels around Kadena. Moreover, the senators say, with the huge costs of the March earthquake and tsunami, Japan

can hardly afford to add to its fiscal burden. The third senator, Jim Webb, adds that Robert Gates, America's outgoing defence secretary, is "very open to our suggestions".

All the same, this week Japanese and American officials, including Mr Campbell, reaffirmed their commitment to the relocation plan, as if the senators' idea was off the table. Yet no one thinks the original deadline of 2014 for moving the base will be met. Indeed, given the opposition in Okinawa, perhaps Futenma's replacement at Henoko will never be built. In which case, Kadena may prove the only option. It seems as foolhardy not to discuss the option as it is to maintain such an awkward silence over China's rise.

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India in Africa

Catching up

Long timid in international affairs, India is starting to make waves



FOR all its elephantine weight, India has long shown mouselike diplomatic clout. Historically, its diplomacy was constrained by poverty at home, fraught relations with neighbours, notably Pakistan and China, and an anxiety to avoid taking sides in the cold war. Even today, its foreign service remains woefully understaffed: both New Zealand and Singapore have more serving diplomats. Now India is trying harder to get noticed.

About time. India's growing economy and population need far more energy than can easily be produced at home, requiring eyes to be raised to distant horizons. Already the world's fourth-biggest oil consumer, within 15 years India will import nearly all its oil. India is set on diversifying supply away from the Middle East. Increasingly, it expects to get supplies from Central Asia and Africa.

As it happens, India's prime minister, Manmohan Singh, has just spent six days in Africa, along with hordes of Indian ministers and businessmen. An Afro-India summit, the second in three years, with leaders of 15 African countries,

produced a surge of shared goodwill. Mr Singh had admirable deeds to point to. India is the third-biggest contributor of UN peacekeepers to the continent, helping clamp down on civil wars in Sudan and Congo. India's navy chases Somali pirates. And, the prime minister reminded listeners, India's record of speaking out against apartheid in South Africa was an honourable one.

More striking, Mr Singh promised $5 billion of loans on easy terms over the next three years for Africans willing to trade with India, plus another $1 billion to pay for education, railways and peacekeeping. It is a steep rise in aid and assistance-last year India gave a mere $25m to Africa-and marks a striking shift, especially since India itself is still a big recipient of aid. But Mr Singh wants something in return: African backing for another round of long-stalled efforts to reform the UN Security Council. India craves a permanent seat, and will back an African permanent one, too, probably for South Africa.

Booming two-way trade, likely to pass $50 billion this year, is the backdrop to all this goodwill. Oil exports account for much of the trade, thanks in part to a rash of investments by Indian oil firms in eight producing countries. Minerals matter too. India's large jewellery industry gobbles up South African diamonds and gold. Mozambique's coal fuels power stations. India wants uranium from Malawi and Niger for nuclear power.

Mr Singh talks cheerily of all this helping Africa to prosper. For now, however, rival China plays the bigger role. The value of its trade is three times India's. Whereas China's African embassies are large and well staffed, the handful of Indian diplomats in Mozambique struggle to speak Portuguese. Bids by Chinese state-owned firms for African oil concessions routinely knock Indian ones aside. It helps that Chinese-built infrastructure projects have already charmed governments.

For all that, India's African activity may one day prove to be at least as rewarding as China's. Whereas the state led the Chinese charge into Africa, Indian forays are mostly guided by private firms. Tata, an industrial conglomerate, Bharti Airtel, a mobile-phone company, and a batch of generic-drug producers have invested heavily on the continent. Accustomed already to dealing with hundreds of millions of poor Indian consumers, they know what to expect in Africa. As their host economies grow at the fastest rate in decades, Indian firms stand to prosper. All the more reason, then, for India's diplomats to look a good deal keener, too.

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Unsafe Pakistan

Wishful thinking

More extremist attacks-and establishment fantasies

THE 16-hour terrorist assault on a naval base in the middle of Karachi, which ended on Monday May 23rd, was brazen even by the recent standards of the Pakistani Taliban and its associates. As ever, official confusion, or obfuscation, initially reigned about what actually happened. The interior minister, Rehman Malik, said that no more than six attackers were involved (including two who escaped). He also said that the 11 Chinese and six American technicians working at the base were never taken hostage. But the initial report the navy lodged with the Karachi police said up to 15 raided the base. And suggestions circulated that Chinese had been taken hostage, before the Chinese foreign ministry denied them.

The raid by the Pakistani Taliban on Mehran base was the most troubling terrorist attack on the country's armed forces in two years. The attackers killed at least ten Pakistani guards in gun battles, turning the site into a war zone. Once again, terrorists made Pakistan's armed forces look sadly amateur.

The assailants used nothing more than a ladder to climb over a back wall of the base. Then, exploiting a blind spot between two security cameras, they moved 1.5km (about a mile) inside the sprawling facility, blowing up one American-built high-tech spy plane worth $35m and badly damaging a second. A brilliantly executed strike, it seemed to benefit from inside knowledge.

Javed Hussain, a retired brigadier who served with Pakistan's elite commandos, says that such attacks could "completely demoralise" the armed forces. This one comes soon after the raid by American special forces on Osama bin Laden. It was a humiliation that the American team could fly in, kill bin Laden and return to Afghanistan before the Pakistani army knew anything of it.

Since some of Pakistan's jihadist groups declared war on their country in 2007, they have attacked air-force bases, buses carrying servicemen and at least five offices of the Inter-Services Intelligence directorate, the military spy agency that spawned and nurtured many of the extremist outfits. Most damagingly, a squad of gunmen shot their way into the army's national headquarters at Rawalpindi in 2009, an attack lasting nearly 24 hours in which they took hostages and killed 16 soldiers.

Many are now wondering how safe is Pakistan's nuclear arsenal. Security is multi-layered, making it highly unlikely that terrorists could seize a whole bomb. But an assault might perhaps yield some components. The consistent success of extremists in recruiting sympathisers within the armed forces makes this a worrying possibility. The Pakistani Taliban said this week that it would not attack a nuclear installation, because "Pakistan is the only Muslim nuclear-power state". Be as reassured by that as you will.

Many in Pakistan, including in the armed forces, think the United States is a bigger threat to the country than the jihadists are. Pakistan is desperately appealing to China. Much has been made of a trip there from which the prime minister, Yusuf Raza Gilani, has just returned.

The government appears to see China as some kind of replacement for the Americans in Pakistan, and perhaps in Afghanistan too. Much is fantasy. Even the Chinese privately urge Pakistan to put down the extremists, repair relations with America and get its economy moving.

At the weekend, the defence minister, Ahmad Mukhtar, announced that China would be taking over Gwadar, a deep-water Pakistani port on the Arabian Sea, turning it into a naval base. Currently, the port is run under contract by the Port of Singapore Authority. That contract is being challenged in the Pakistani courts by the provincial government, which could open the way to China taking over. However, Hamayoun Khan, of the National Defence University in Islamabad, insists that China's interest in Gwadar remains chiefly commercial. Under an ambitious scheme, it could be developed to take goods by road and rail between Gwadar and south-west China. More than anything, says Mr Khan, Pakistan serves China's interests by becoming safe and secure. This week, the government in Beijing said the Gwadar takeover plan had come as news to China.

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Banyan

A double bind

Western sanctions on Myanmar are failing. But the regime does not deserve their lifting



THE party's scarlet fighting-peacock flag flies again over the dilapidated Yangon headquarters of the National League for Democracy (NLD), Myanmar's main opposition. This week the building housed a fund-raising art exhibition, featuring photographs of monks, pagodas and landscapes, as well as of Aung San Suu Kyi, the movement's leader, free since November from house arrest. When she arrived to open the exhibition, it was to a dazzle of flash photography and the crush of an adoring throng.

Elsewhere, in a cramped suburban house, under a huge picture of Miss Suu Kyi, two dozen young people listen attentively to a lecture on their civic responsibilities. This is a short-term boarding school for opposition activists, run by the Bayda Institute, an NGO. Far from hiding its work, Bayda's organisers positively welcome the increased scrutiny that foreign attention might bring.

For those looking for chinks of light in the gloom of Burmese political repression, these are cheering scenes. Some even hope for an end to the logjam in relations with the West, in which Western sanctions have further isolated a regime that has rarely sought engagement anyway. But in April the European Union's "restrictive measures" were renewed for a year. And on May 20th, as Joseph Yun, a senior State Department official, was ending a visit to Myanmar seeking "common ground" with the new government, Barack Obama also extended American sanctions that are much more sweeping.

The move was understandable. The glimpses of tolerance for an active, vibrant opposition are largely illusory. The NLD, which boycotted the rigged election held in November, is in theory illegal. The notionally civilian regime now in power seems indistinguishable from the one in uniform it supplanted. Its newspapers still carry the same turgid slogans about a "discipline-flourishing democracy". Parliament, meeting in a megalomaniacal complex in the remote new capital, Naypyidaw, has finished its first session with no date set for the next. The first saw some difficult questions asked of the government. But they were neither answered nor much reported in the press.

An "amnesty" from the new government, eagerly awaited by political prisoners, some of whom are serving sentences longer than 60 years, turned out, when it was revealed on May 17th, to be a cruel hoax for most. Officially, the government denies it holds any political prisoners, and its generosity entailed a blanket one-year reduction of sentences for all jailed criminals. At least 2,200 Burmese are in prison for their political beliefs.

A new crackdown on the NLD and its leader could come at any time. That it has not already is in part a measure of Miss Suu Kyi's non-confrontational restraint since she was freed. However, she says that in a month or so she will start travelling beyond Yangon. In previous brief periods of "freedom" during her 23-year campaign for democracy, such expeditions have been enough to have her locked up again.

So it is hard to justify lifting sanctions, even though many foreigners now dealing with Myanmar, and many opposition activists in Myanmar itself, argue they are at best ineffective and probably counterproductive. Their original aim-to persuade the junta to honour the result of an election in 1990 that the NLD won in a landslide-now seems ancient history. Western squeamishness has not stopped the regime enriching itself with sales of gas to Thailand, or from opening the

country to fast-growing Chinese trade and investment. Some Burmese joke bitterly their country has become the "Chinese Republic of the Union of Myanmar".

Europe and America, meanwhile, have seen their visibility and influence in Myanmar dwindle. Some activists in Yangon even argue that Western sanctions actually make it harder for the government to make concessions, such as freeing prisoners of conscience. It cannot be seen to be bending to foreign pressure.

So long as Western governments for their part cannot be seen to be rewarding "reforms" that are largely cosmetic, there is stalemate. Miss Suu Kyi could help break it. Her unambiguous support for the end of sanctions would remove most of the political obstacles. But she, too, is in a bind. Not only can she not appear to abandon the political prisoners. But also, with her party illegal and her freedom subject to the whims of the regime, her international sway on the issue of sanctions is one of the few bargaining chips she has left.

Legitimate questions

And so the NLD has confined itself to calling for a "review" of sanctions, arguing that most harm the regime, not the Burmese people. Indeed, the measures vary greatly. America bans all fresh investment in the country, has frozen the assets of some officials and votes against loans to Myanmar in international financial institutions-one reason Myanmar receives much less aid per head of population than do, for example, Laos and Cambodia. The EU imposes an arms embargo, a visa ban on some senior officials (whose assets in the EU are also frozen) and refuses non-humanitarian aid. But Europeans are barred from investing in or importing only gems, timber and minerals.

Some of these restrictions, such as the visa ban and the arms embargo, can hardly be accused of harming the Burmese people. And even without sanctions there would be huge obstacles to Western investment: consumer boycotts, reputational risk, an unconvertible currency and an arbitrary legal framework. So a calibrated approach to lifting sanctions seems sensible. But it has to begin somewhere and, to happen at all, has to come before the next bout of repression. This week Miss Suu Kyi said she thought the regime's leaders would now be more reluctant to crack down than in the past because "they have a lot more to lose; they are trying to establish their legitimacy." But sooner or later, they may realise that, in the eyes of much of the outside world, as well as of their own people, they are never going to achieve that.

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The United States, Israel and the Arabs

You can't make everyone happy

Barack Obama mildly pleased some Arabs, annoyed a lot of Israelis and has yet to bring the prospect of Middle East peace any closer



IT WAS a tricky few days for Barack Obama in his latest bid to please the Arab world in general and, more specifically, to break the logjam between Palestinians and Israelis. By contrast, Israel's prime minister, Binyamin Netanyahu, after frosty talks in the White House and rapturously received speeches to Congress and to the most powerful of America's pro-Israel lobbies, must have chuckled at having once again-at least in the short run-fended off an American president seeking to prod him more brusquely than usual down the road to compromise with the Palestinians.

In the end, after much brouhaha and hyperbole, there were no real winners: no sign that negotiations between Israel and the Palestinians would resume; no hint of flexibility from Mr Netanyahu, despite his declared readiness to make "painful compromises" in the interest of peace; no expectation that the Palestinians would talk to Mr Netanyahu under present circumstances; no promises that they would put off their quest for recognition of statehood at the UN General Assembly in September; only tepid praise from the Palestinians for Mr Obama's statements that antagonised Mr Netanyahu; and, across the Arab world, in European capitals, as well as in doveish circles in Israel itself, general condemnation of the Israeli leader for his cocking a snook at Mr Obama.

In any event Mr Obama's own speech at the State Department on May 19th was an awkward mixture. Most of it dwelt on the Arab upheavals rather than the Israel-Palestinian tangle. It was the president's first big statement on the Middle East since his acclaimed speech in Cairo two years ago, when he persuaded many Arabs and Muslims that he was genuinely determined to open a new chapter of friendship after years of toxic mistrust, failed military interventions and stalled efforts to make peace between Israel and Palestine.

This time Mr Obama sought to place America on the side of the reformers, putting democratic values above alliances with dictators. He promised a dollop of cash to help countries such as Tunisia and Egypt along the road to freedom. He reassured the Libyan opposition fighting to overthrow Colonel Muammar Qaddafi that he backed them. He took a swipe at his Bahraini ally, which hosts the American fifth fleet, urging dialogue with protesters rather than repression. He told Yemen's embattled president to quit. And he asked Syria's president to "lead that transition [to democracy] or get out of the way." Mr Obama was notably silent about Saudi Arabia, as though unable to chide so vital an ally for its patent lack of reforming zeal.

But all this was drowned out by what he said about Israel-Palestine, in particular when he told Mr Netanyahu that "the borders of Israel and Palestine should be based on the 1967 lines with mutually agreed swaps". The president also advocated first tackling the borders issue and questions of security, such as the demilitarisation of a future Palestinian state, while leaving the hitherto intractable issues of Jerusalem and Palestinian refugees until later. He also said that the recent reconciliation accord between the Palestinians' two main factions (see article) "raises profound and legitimate questions for Israel", since the radical Islamist movement Hamas has neither disavowed violence nor agreed to recognise Israel. But he left a possibility for the more moderate Fatah faction to persuade Hamas to change its mind.

Mr Obama's reference to 1967 seemed to catch Mr Netanyahu on the raw. In fact, previous presidents have mediated on the assumption that any agreed border would roughly follow the pre-1967 one. Bill Clinton's "parameters" of 2000 suggest that a Palestinian state would encompass 94-96% of the West Bank, with additional compensating land swaps of 1-3%. But no American president had explicitly endorsed the 1967 line before.

Mr Obama had barely finished his speech before Mr Netanyahu, about to take off for Washington, issued a furious statement, widely and promptly echoed across the American spectrum. The 1967 border, he said, was "indefensible"; Israel at its narrowest point, pre-1967, was only "nine miles wide". Moreover, in contrast to Mr Obama's proposal that Israeli forces withdrew from the West Bank, he insisted they would remain indefinitely in the Jordan Valley, on the eastern border with Jordan.

A few days later, at a conference hosted by the American Israel Public Affairs Committee, better known as AIPAC, Mr Obama sought to soften his 1967 statement. He had not said, he explained, that the border would be the same as before 1967. Because of those swaps, Israel and Palestine would "negotiate a border that is different than the one that existed on June 4th, 1967". The 1967 line was only a starting point.

Mr Netanyahu later sought to sound a shade more emollient. He would be generous in giving the Palestinians space for a state on the West Bank, though by implication nothing like as ample as suggested by Mr Clinton or even by the Israeli prime minister's two predecessors. Most of the settlers there and in Jerusalem, whom he numbered at 650,000, would be on the Israeli side of an adjusted border; an indeterminate number of Jewish settlements in "Samaria and Judaea", his preferred biblical name for the West Bank, would "end up beyond Israel's borders"-and would therefore, by implication, have to be removed. But Jerusalem would be the undivided capital of Israel, which the Palestinians must recognise as a specifically Jewish state as a precondition for any deal. In other words, if Mr Netanyahu stuck to his verbal guns, a deal with even the most malleable Palestinians, let alone with a unity government including Hamas, would be virtually inconceivable.

Why did Mr Obama risk stirring such bad blood between his administration and Israel's, to no apparent diplomatic gain and at a time when the pro-Israeli lobby in America, already in pre-election mode, still wields so much clout? Perhaps, in frustration at his failure to advance the peace process, he wanted to put down a marker, warning Mr Netanyahu that he would not tolerate his continuing refusal to give ground on a whole range of issues. Mr Netanyahu's unwillingness last September to extend a freeze on expanding Jewish settlements in the West Bank prompted the Palestinians to pull out of talks only three weeks after they had resumed, to Mr Obama's intense chagrin. "He really told him, 'If you give me nothing to work with, America will keep trying to defend you but it will not be enough,'" says Daniel Levy, an Anglo-Israeli former negotiator who works for the New America Foundation, a peacemaking outfit in Washington, DC.

Rarely has the outlook seemed so bleak. On May 13th Mr Obama's envoy, George Mitchell, resigned in despair. Some say Mr Obama should still, whatever Mr Netanyahu's objections, lay out a detailed plan of his own and visit Israel to promote it. Perhaps he should suggest indirect talks to explore fresh negotiating possibilities. But no American president seeking re-election can contemplate putting real pressure on Israel-withholding favours at the UN, for instance, or reducing the supply of arms and aid. As things stand, even those who think Mr Obama's vision of an Israeli-Palestinian compromise is right fear the president may have picked a fight that, in the short run, he was unlikely to win.

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Palestine's own negotiations

Hamas is itself divided

Before embracing their Fatah rivals, the Islamists must agree among themselves



ALL is not well in the camp of Hamas, the Palestinians' Islamist faction that rules the Gaza Strip. No sooner had its leader in exile, Khaled Meshal (pictured), declared his readiness for Mahmoud Abbas, who heads the Palestinians' more moderate Fatah faction, to relaunch negotiations with Israel, than one of Hamas's leaders in Gaza, Mahmoud Zahar, said Mr Abbas did not speak for the Palestinians: "Our programme is against negotiations in this way because they are a waste of time."

Formally Mr Meshal, who is based in Syria's capital, Damascus, speaks for Hamas. But with turmoil there and uncertainty over the policy of Egypt towards the Palestinians-it has said it will open its border crossing to Gaza-Mr Meshal and his exiled coterie have looked homeless and weak. And Hamas leaders in Gaza say they are keen to see the movement's centre of gravity shift back home. "The main headquarters of the Hamas movement is in the occupied lands," says Mr Zahar. "Its real weight is there."

Rival visions have worsened the row. Whereas Mr Meshal relies on diplomatic and foreign ties for his influence, Hamas leaders in Gaza depend more on their own resources. Mr Meshal looks to reconciliation with Mr Abbas's Fatah movement as a means to regain a national role, and has long sought a place in the Palestinians' umbrella body, the Palestine Liberation Organisation. But Hamas leaders in Gaza think they already have a big enough platform.

Depending more on friends outside Palestine, Mr Meshal faces pressure from Islamist movements elsewhere in the Arab world to show a more conciliatory face. Hamas's harsh de facto one-party state in Gaza clashes with the idea of an enlightened democratic movement that sister Islamist groups seek to portray.

Mr Meshal's friends speak of a "transformative process" whereby Hamas re-emerges as a pluralist and progressive outfit able to co-operate with other factions to achieve a Palestinian state alongside Israel. But that jars with Gaza's Islamists, some of whom saw the agreement to reconcile with Fatah as a plot to divest Hamas of its hard-won power and to scuttle its Islamist plans. Mr Zahar says Gaza's forces would stay firmly under Hamas control during a proposed year-long interim period leading up to elections. He also rejects the mooted idea that some security forces answerable to Mr Abbas would be allowed back into Gaza. And he ruled out an agreement on a joint programme with Fatah. Although Mr Zahar stresses an Islamising agenda, Mr Meshal highlights the goal he shares with Fatah of establishing a Palestinian state.

Such tensions could sink the reconciliation accord initialled in Cairo on May 4th. An interim technocratic government, due to be set up within days of the signing ceremony, could take weeks to emerge. The new government is meant to be filled with technocrats, but both factions are bickering over candidates for prime, foreign and interior minister. Mr Abbas has sounded keen for the current prime minister, Salam Fayyad, to stay on. But Mr Fayyad's chances of doing so dipped a few days ago when he had a heart attack in Texas. True reconciliation is still some way off.

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Syria

Unhappy in Homs

Unrest in Syria's third city shows no sign of abating

AS YOU drive past the main checkpoint and on into the centre of Homs, Syria's third-largest city, about 160km (100 miles) north of the capital, Damascus, it is easy to be lulled into a sense of calm. The security forces have blocked protesters from reaching the town's central New Clock square since they violently broke up a sit-in there on April 18th. Around the square, windows are still boarded. Order seems, at first glance, to prevail.

But the protests persist. In the city's districts of Bab Sbaa, Bab Dreeb or Bab Tadmor, groups of angry young men still gather every night, before melting away as soon as security forces appear. Women hold hurried protests before they too disappear. The army has sandbagged defensive positions at street corners in the rebellious district of Bab Sbaa, a mainly Sunni quarter that abuts one dominated by the minority Alawite sect, to which President Bashar Assad's family belongs. In another district, Baba Amro, the marks of tank tracks and the blown-out windows of a shopping mall are a reminder of the military crackdown a few weeks ago. Plastered with happy pictures of President Assad, tanks are still stationed watchfully on a grassy patch not far from the district.

On May 18th many of Homs's people observed a general strike. Shopkeepers pulled down their shutters as protesters raced through the streets. For the next two days the city felt as if it were under siege. Rocks and dustbins blocked many of the roads. On Friday May 20th groups of men poured out of mosques, waving flags, carrying banners and shouting "Homs is bigger than you!"-an implied reference to Mr Assad. Organisers in different districts sought to co-ordinate the protests.

The security forces raced around the city. Checkpoints proliferated. Gunfire rang out in the districts of Waa and Bab Sbaa, among others. Groups of men in leather jackets brandished guns. Some of them were apparently members of Alawite gangs, hostile to the protesters. On May 20th and 21st at least 21 civilians in Homs were said to have been killed.

Clinics set up in mosques to treat those who had been wounded in earlier protests were raided. Some doctors arranged makeshift surgeries in private homes. One of them said that more than 300 people in Homs alone have died since the protests broke out; the national figure now exceeds 1,000. Some of the Homs victims had been prevented from reaching hospital or were too frightened to be taken there. People whisper in terror about torture at the hands of the security forces, who have also been accused of raping women in houses they have raided. There are unconfirmed reports of mass graves. Some say schools and stadiums have been turned into holding pens for protesters.

Whereas the protests elsewhere in Syria have been staged mainly by the urban and especially the rural poor, in Homs the educated middle class has joined in. Moreover, the unrest in Homs, which has a large oil refinery and lies on the main road from Damascus to Aleppo, the country's second city, threatens to disrupt Syria's economy.

Homs has added significance because it sits on a fault line between the country's Sunni majority (some three-quarters of Syrians) and the Alawite minority (some 10% nationwide), the Assad regime's bedrock. In Homs the protesters stress that the city's sects, including a notable Christian minority, have been remarkably united in their opposition to the regime. On May 18th protesters in the district of Baba Amro held up crosses as they marched through. When protesters a few weeks ago strode through a Christian district near the centre of Homs, residents gave them water. Even some Alawites, who are a much larger minority in the city than in Syria as a whole, took part in a big sit-in in April.

But the mood has nonetheless become more sectarian. Hostile references to the Alawites are becoming more common. "We were all one before this," says a teacher in Homs. "But since this started it has become 'us and them'." Locals warn visitors not to walk through Alawi areas where, they say, roaming gangs armed by the government commit acts of violence. For their part, many Alawites, though often against Mr Assad's harsh tactics, have been forced back into supporting him on account of sectarian hostility, fearing they would be targeted if he were to fall. Though most of the protesters have sought to eschew violence, some of them in parts of Homs, and especially in the nearby tribal areas of Rastan and Telbiseh, have taken up arms. A local doctor says such people have killed at least two security men.

Elsewhere in Syria, the country's Sunni clerics, who have generally co-operated with the regime, are showing signs of division. Only a few have spoken out, but the number may grow. Influential sheikhs in Deraa, where the protests began three months ago, and in the port city of Banias have castigated the president before large crowds. In a widely applauded speech, Muhammad al-Yacoubi, a preacher in the posh Abu Rumaneh district of Damascus, told worshippers to "speak out against wrong"-and was promptly sacked.

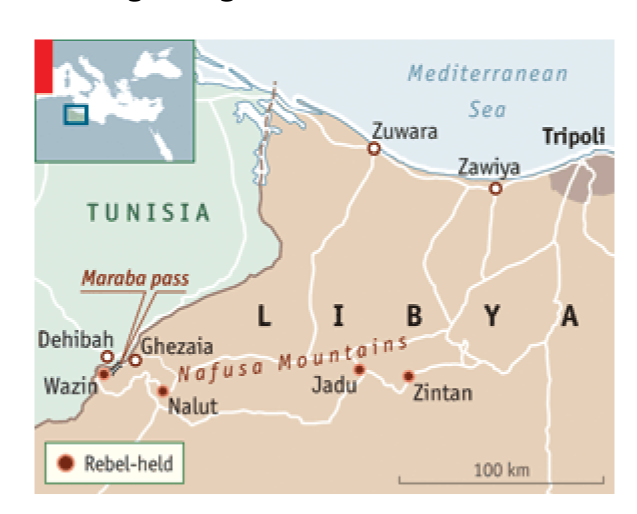
On May 13th the government called for a "national dialogue". But none of the leading street protesters nor any of the older generation of dissidents seem likely to engage with Mr Assad and his regime. In any event, if Homs is anything to go by, the room for dialogue has narrowed.

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The battle for Libya

Not so quiet on the western front

Rebels in the western mountains are holding out against Muammar Qaddafi



THE rebel in the back seat had long hair, a wild beard, and sang "The Unforgiven", his favourite tune by Metallica, a rock band from Los Angeles. His lips formed the words "Never free, never me," as music blasted from the car stereo. Ayman, who did not give his full name for fear of reprisals against his relatives still in areas under Colonel Qaddafi's control, joined the revolution soon after it began in eastern Libya. An accountant from the small rebel-held town of Nalut, some 235km (146 miles) south-west of Tripoli, the capital, he promised not to cut his hair until the dictator is gone.

The car sped towards a border crossing with Tunisia near Wazin, which the rebels captured a month ago. As the rebels get all their fuel, food and spare parts from Tunisia, Colonel Qaddafi's forces in the nearby hamlet of Ghezaia have been trying in vain to cut their supply line. The road passes through the rebel-held Maraba pass on the edge of the Nafusa mountains. The rebels have used bulldozers to barricade the road through the pass with rocks, sand and knocked-out tanks filled with stones.

On May 17th the colonel's forces started attacking the pass with some 30 pickup trucks and armoured personnel carriers. While pounding the rebels in the hillside with rockets, they brought in a bulldozer to clear the first barricade. A tank finally entered the gorge, only to find that its cannon was unable to tilt far enough up to fire at the rebels above. Army snipers climbed the ridge but came under fire from rebel anti-aircraft guns mounted on pick-up trucks.

After eight hours of fierce fighting the soldiers retreated, leaving the tank and bulldozer behind. The rebels numbered around 500 men by the time reinforcements had arrived from the nearby rebel-held towns of Jadu and Zintan.

This time they fended off the colonel's troops. But they sorely lack training. None of their more sophisticated weapons (some provided by Qatar) hit their targets. By the time the loyalist soldiers had retreated, the rebels had lost ten men to artillery and sniper fire. A survivor pointed to the sky and asked where NATO's aircraft had been all day. In the past they

have bombed targets near Zintan but not around Wazin or Nalut. Even so, the colonel's forces have suffered enough raids in the past two months to have become exhausted. And the rebels in the west, ill-trained as they are, are proving more than a nuisance.

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Food in Africa

A recipe for riots

Rising prices can cause mayhem



Some Kenyans say they can't afford to eat

PEOPLE living in the towns of sub-Saharan Africa spend a bigger share of their income on food than do urban residents almost anywhere else in the world. Labourers often use up over half their wage just to eat. And since Africans tend to depend on a few staple crops, rises in cereal prices can be devastating. More money on food means less on school fees, sanitation and health. It may also mean more girls forced into prostitution and more violent crime.

In some African markets maize and wheat prices have risen by 30% this year. Political tension invariably rises, too. Burkina Faso, Mozambique, Senegal and Uganda have had food-related demonstrations and riots. Some people worry that price rises may push Sierra Leone back into chaos and keep Cote d'Ivoire on edge. Higher prices have left providers to the hungriest, such as the UN's World Food Programme, badly short of cash.

Some African governments are managing food markets well. Kenya recently waived duty on wheat and maize imports, dampening prices as well as anger. Other countries have offset increases by launching food-for-work schemes or handing out vouchers for water and other services to boost the amount of money consumers can spend on food.

But such methods cannot work for ever. Food prices may not come down for a long time. Moreover, shortages in Africa are partly caused by inefficient farming, an estimated loss of 40% of produce on the way to market, and the high cost of fuel. And while Africa has more virgin farmland than anywhere else, in some areas good land is scarce. Many families, for instance in western Kenya or northern Ethiopia, have less than the 0.3 hectares (0.74 acres) deemed the minimum for supporting a family. Land title is still often held communally, making it nigh-impossible for farmers to get credits. Women especially find it hard to get property rights, though they often do most of the farm work.

But not all is gloom. Just as high oil prices help Africa's petroleum economies, so higher prices for beans, cereals, dairy products and meat boost smallholders. Rwanda's minister of finance, John Rwangombwa, says the higher cost of food imports in his country is partly offset by increased revenues from coffee and tea.

There are hopes that Africa will increase yields by exploiting unfarmed land, building more reservoirs, warehouses and roads, using better seeds and more fertiliser, and installing drip irrigation. Farm loans, crop insurance and saving schemes can help. Tanzania's president, Jakaya Kikwete, says a $2 billion scheme in his country to develop a transport corridor from Dar es Salaam, the commercial capital, to Lake Malawi, may raise production to record levels. But indebted countries that import a lot of food, such as neighbouring Burundi, are likely to get even poorer.

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Sudan's split

A last-minute hitch?

A northern attack on a disputed town complicates southern independence



THE secession of South Sudan from the rest of the country was always going to be a messy divorce. Some 2m lives have been lost in the decades-long struggle. Now more blood is being shed just before the final settlement.

Supported by tanks and aircraft, northern Sudanese troops recently overran the border town of Abyei, burning down parts of it. Some 40,000 residents fled the area, according to the UN. This is a far cry from the 2005 Comprehensive Peace Agreement that brought civil war to an end and opened the door to southern secession.

Abyei, little more than a dusty and remote hamlet, is claimed by north and south. Once desired for its oil flow, now reduced to a trickle, the town has taken on symbolic character, almost a Jerusalem of Sudanese politics. Powerful leaders of the Dinka Ngok tribe in the south see it as their homeland even though northern leaders have pledged to defend the rights of the Misseriya, a nomadic Arab tribe who take their prized cattle to graze there.

International mediators long assumed that Abyei would eventually go to the south. But in recent months both sides stationed troops near Abyei, fearing the other would seek to grab control after a planned referendum there never happened.

The American government, a driving force behind the 2005 agreement, called the northern aggression "disproportionate and irresponsible". An offer to take rump Sudan (ie, the north) off its list of state sponsors of terrorism-a big diplomatic

carrot-could be withdrawn. The UN, which is helping to manage the division of Africa's largest country, is desperately trying to negotiate a withdrawal of northern troops, so far without success.

Southerners fear the north may annex Abyei, forcing their own leaders to make a tough choice ahead of their declaration of independence due on July 9th. They could either limit themselves to verbal protests and risk the permanent loss of Abyei or try to retake the area by force and risk causing mayhem: a new civil war or at the very least a string of clashes along their northern border. If attacked, the north would almost certainly refuse to recognise the south, and so would its allies abroad.

Perhaps the northern attack was merely a bid to force the south's hand in negotiations. Sudanese politicians are famous for their sometimes near-suicidal brinkmanship. Knowing that the clock for independence is ticking in the southern capital, Juba, northern leaders may be seeking a few extra concessions, not least over the division of oil revenues. Sudan is sub-Saharan Africa's third biggest producer. Most oilfields are in the landlocked south, which needs northern pipelines to Port Sudan on the Red Sea to export the stuff. The north wants a fat chunk of the revenues as a fee.

The status of Abyei does not threaten southern independence per se. But the latest blow-up shows that relations between north and south may be explosive for years to come. And armed conflict may erupt, whatever happens in Abyei.

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Spanish politics

The unhappy campers

Spain's young want jobs, the markets want reform and voters want a new government



MICHAEL BANKS, a child in the 1964 Disney musical, "Mary Poppins", is an unlikely hero for today's angry Spanish youth. But his face features on some of the thousands of posters pinned to the walls of Madrid's central Puerta del Sol square, where protesters have been camped out for almost two weeks. The reason? He demanded his tuppence back from the Dawes Tomes Mousley Grubbs Fidelity Fiduciary Bank, and started a run.

As Spain's ruling Socialists reeled from a ten-percentage-point defeat at the hands of the conservative People's Party (PP) in municipal and regional elections on May 22nd-the party's worst-ever result-some found explanations among the tented demonstrators in Madrid and dozens of other Spanish cities. It is not that the protesters-an ill-assorted mix of anti-capitalists, anarchists and pragmatists bothered about corruption and electoral imbalances-changed voters' minds. It is that

they, and people like them, might normally have voted for left-wing parties. On May 22nd the Socialists lost 1.5m, or one in five, of their votes. Yet the communist-led United Left coalition picked up only 210,000. Likewise, Mariano Rajoy, the PP's leader, focused his party's election campaign on the economy and jobs, Spain's two main concerns, but the PP gathered only 560,000 of the spare votes. Its victory was due chiefly to disillusion with the left, not great advances on the right.

Still, this was an historic drubbing. It is best measured by the record number of regional governments and city halls won by the PP. The party will now run between nine and 11 of Spain's 17 regional governments, and have an important say in several more. The Socialists are left in control of just Extremadura and two regions that did not vote-Andalusia and the Basque country. But all of Andalusia's provincial capitals, including traditionally Socialist Seville, are now in PP hands.

A general election must be held by the end of next March. Jose Luis Rodriguez Zapatero, the Socialist prime minister, announced in April that he would not stand again, hoping, probably vainly, to save his party by acting as a lightning-rod for voter fury. Few now doubt that Mr Rajoy, on his third try, will move into the prime minister's Moncloa Palace. The question is whether he will land the holy grail of Spanish politics: a parliamentary majority. If repeated, the PP's ten-point lead over the Socialists on May 22nd should do-just. Anything less threatens to leave Mr Rajoy without a mandate for the reforms Spain badly needs.

Mr Zapatero's popularity has proved inversely proportional to the wisdom of his decision-making. For two years he denied that Spain was in serious financial trouble. His support fell only slightly, despite recession and galloping unemployment. But last May, as contagion spread across the euro zone's periphery, he executed a U-turn, embracing austerity and, to a lesser degree, reform. His ratings plunged.

Now the Socialists must choose a replacement for him. A bitter fratricidal battle is looming, with calls for an emergency party conference to remove him as secretary-general. If he loses control of his party, Mr Zapatero might be dumped as prime minister, or even have to call an early election, as the PP has urged. A party meeting on May 28th was due to set the course. Alfredo Perez Rubalcaba, the deputy prime minister, and Carme Chacon, the young defence minister, are the front-runners to replace Mr Zapatero. In policy terms neither represents a huge change.

As his party grows more uneasy, Mr Zapatero is sticking to an austerity path that aims to reduce Spain's budget deficit from 11.1% of GDP in 2009 to 4.4% by the end of next year. The OECD, a think-tank, says he is on target. The political cost is becoming apparent. But if the Socialists think left-leaning voters abandoned them only because of spending cuts, reduced civil-service pay and pension reform, they should study the demographics of the Puerta del Sol's unhappy campers.

The protesters are mostly students. "Most live with their parents. Their problem is the lack of a future," says Ignacio Sanchez-Cuenca of Madrid's Juan March Foundation, a research body. Spain's already-startling 21% unemployment rate rises to 45% among the young. Growth, at just 0.8% over the past year, remains sluggish. A decade-long bonanza of private borrowing, followed by a spurt in public borrowing when the crisis struck, has left a heavy debt burden. Discharging it may depress growth for years. *The Economist*'s May poll of forecasters predicts growth this year of just 0.6%, followed by 1.1% in 2012. That will create few jobs.

Provisional economic figures released earlier in May contain some worrying details. A surprise upturn in public-sector spending-which increased by 1.1% in the first quarter of 2011 after four quarterly declines-raises questions about decentralised Spain's ability to cut its way to fiscal health. Angel Laborda of Funcas, a savings-banks body, says regional governments and town halls may have been using this year's budget to pay costs from 2010. That implies a hidden extra deficit.

Many of these administrations are now in the PP's hands. Thorough scrutiny should reveal the true state of the books. The PP now has a good chance to show voters how it would run public finances. So far, its record is mixed. The Madrid region, long a PP bastion, has the lowest deficit of Spain's 17 regions. But PP-governed Murcia is one of the worst performers.

Markets did not celebrate the PP's win. Bond yields rose and stocks fell, stoking fears that Spain's attempt to "decouple" itself from the problems of other peripheral euro-zone countries may be in trouble. Mr Rajoy has criticised Mr Zapatero's pension reform without offering an alternative. If he wants to take control of a country that is not in crisis he must become clearer about his plans for government.

Italy slumbers

United in apathy

Why young Italians stay at home

FOR a moment, it looked as if Spain's protests might spread to Italy. That would have been understandable. Italy too has an electoral system that gives party bosses absolute control over the selection of candidates. It too has a struggling economy and high rates of youth unemployment (29% nationally; in the poor south, it approaches Spanish levels). Unlike Spain, moreover, Italy is a gerontocracy where the young feel politically stymied.

As *#spanishrevolution* hashtags proliferated on Twitter, they were joined by *#italianrevolution* ones. But it soon became clear that many of these were written by Spaniards keen to export their protest. Demonstrations were called for May 21st in Rome, Milan and other cities. But the few people who turned up were mostly young Spaniards living in Italy.

Are their Italian peers less dynamic? Maybe. But other reasons explain the torpor. One is that, whereas Spaniards are angry (their economy has gone from prolonged boom to spectacular bust), Italians are simply numbed by a decade of negligible growth.

Another possible explanation is subtler. In both countries young people are victims of a labour system that produces cosseted insiders, who enjoy permanent employment, and bereft outsiders who, if they work at all, qualify only for an infinite series of short-term contracts. In Spain, at least some of the demonstrators seem to have understood that this system is sustained partly by the left and the trade unions; not so in Italy, where liberal economic ideas go almost unvoiced outside business schools. Until they are heard more widely, young Italians will continue to divide between those (mostly graduates) who flee to countries like Britain and America, and those who stay on in the hope of becoming pampered insiders themselves.

A recent survey found that the job most sought after by Italians between the ages of 26 and 50 was that of public employee. In Italy, it would seem, the revolution can wait.

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After DSK

What did they know?

Some hard questions for France's elite after Dominique Strauss-Kahn's arrest



Hollande, Strauss-Kahn and Aubry: One big, happy, self-serving political elite

NEARLY two weeks after Dominique Strauss-Kahn's arrest in New York on charges of attempted rape and sexual assault, the French are still reeling. Talk about the scandal fills the airwaves and front pages, and not only because it disqualifies from next year's presidential election the man who many thought would win. The affair, and reactions to it, raise awkward questions about French attitudes to class, women, justice and the political elite.

Everybody knew, but nobody said anything. This appears to be what the torrent of commentary amounts to. The argument is complex, not least because although Mr Strauss-Kahn's womanising in Paris was legendary, he has been publicly accused of sexual aggression only once: by Tristane Banon, a writer, who said she had to fight him off on the floor when she went to interview him in 2002. She did not press charges at the time, and her lawyer says she will not do so, for now.

What has emerged is a portrait of a political culture in which seduction bordering on harassment is rife. "Sexual harassment is not accepted in the workplace in France-except in politics," says a former colleague of Mr Strauss-Kahn. "Powerful male politicians put the women they work with under immense pressure." Cosy ties between politicians and journalists, who-like Mr Strauss-Kahn and Anne Sinclair, an ex-television presenter-often marry each other, contribute to an attitude among the elite that their sophisticated mores can police themselves. Privacy laws, and implicit threats of retribution, prop up the culture of self-censorship. Few harassment claims against politicians reach court.

Yet if Mr Strauss-Kahn's encounters did overstep the line, the media were not the only complicit party. Fingers are being pointed at the Socialist Party itself. "What exactly did Socialist leaders know about DSK's private life?" asked *Liberation*, a leftish newspaper, in a damning editorial. Anne Mansouret, Ms Banon's mother and herself a Socialist politician, said this week that Francois Hollande, an ex-party boss, knew about the assault and even comforted her daughter at the time. Mr Hollande, a strong runner for the Socialist presidential nomination, replied that he had "no knowledge" of the gravity of the charges.

Yet it stretches credulity for the party to say that it had no inkling. Ms Mansouret now says that she regrets advising her daughter at the time not to press charges. In 2008 another Socialist politician, Aurelie Filippetti, declared that she had decided never to be in a closed room with Mr Strauss-Kahn after he hit on her in a "heavy-handed" way. This week *Le Monde* reported that President Nicolas Sarkozy's team had compiled documentary evidence of Mr Strauss-Kahn's activities. "Everyone turned a blind eye," says one Socialist who knows him well, "because he was a dream candidate."

On the left in particular, there seems to be a prevailing code under which to refuse sexual advances, even when unwelcome, is somehow bourgeois. Many grandees reacted to Mr Strauss-Kahn's arrest with horror, not at the accusations, but at the humiliation of an untried powerful figure. Bernard-Henri Levy, a philosopher who once defended Roman Polanski's right not to be jailed in America for unlawful sex with a minor, railed against the judge who "pretended to take [DSK] for a subject of justice like any other". "Nobody died," snorted Jack Lang, a Socialist ex-culture minister. Few had a good word for the hotel maid; some treated her claims with equal disdain. One left-wing editor, Jean-Francois Kahn, even dismissed the encounter as a *"troussage de domestique"*, a reference to an aristocratic entitlement to extract sexual favours from domestic staff. All this leaves the troubling impression of an elite that believes itself exempt from ordinary rules (although both Mr Lang and Mr Kahn apologised for their comments).

In protest, a set of women's groups organised a weekend march, with banners declaring "We are all chambermaids". "Sexism in France is prevalent, and rape cases are underreported," says Linda Ramoul, one of the organisers. "The political elite is totally disconnected." The business also plays into the hands of Marine Le Pen, leader of the National Front, who has been one of the few to insist on a "presumption of sincerity" for the chambermaid, and who has railed against the "complicit silence" of the elite about Mr Strauss-Kahn's "pathological" behaviour.

Could the DSK affair change such attitudes? Possibly, but do not bet on it. This week two ex-employees filed charges of sexual harassment against Georges Tron, a junior minister in Mr Sarkozy's government; Mr Tron called the allegations "nonsense". It remains to be seen if the claims go anywhere, but they do not help the right. As it is, Mr Sarkozy has not enjoyed a bounce in the aftermath of Mr Strauss-Kahn's arrest. Polls had suggested the president would have struggled against Mr Strauss-Kahn. Now they say that against either Mr Hollande or Martine Aubry, the Socialists' leader, he would fare little better.

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Dutch politics

Neither in nor out

And that's exactly how Geert Wilders likes it

JUST as financial contagion spreads from one country on the euro zone's southern periphery to another, bail-out scepticism is creeping across the creditor countries of the north. The latest jumpiness comes from the Netherlands. Last week Geert Wilders, leader of the far-right Freedom Party, which provides the minority government with backbench support, lashed out against plans to extend further financial backing to Greece. The government defeated his parliamentary motion urging it "not to pay another cent" after Mark Rutte, the prime minister, scrambled for the support of the opposition Labour Party. But Mr Wilders, better known for his anxieties about Islam than his concerns about Greek solvency, saw his popularity rocket. Polls suggest most Dutch favour his position.

Mr Wilders's grip on Dutch politics may strengthen further after the ruling coalition failed to secure a majority in the Senate by just one seat on May 23rd. The sleepy upper house, which is elected by members of provincial assemblies, usually attracts outsiders' attention just once a year, when it hosts the national spelling contest. But because it can send back bills approved by the House of Representatives, the government must now find ways of guaranteeing the passage of its potentially controversial legislation.

This may mean turning to an unlikely bedfellow-SGP, an orthodox Calvinist party best known for opposition to such modern horrors as female election candidates, gay teachers in Christian schools and Sunday trading. Mr Rutte and Mr Wilders hope to secure support from the SGP, which holds the seat they need, based on shared attitudes towards immigration restrictions, economic reforms and budget cuts. But that may not be enough. Perhaps anticipating this outcome, ahead of the Senate elections the government opted to keep the country's obsolete blasphemy law and, earlier, dropped plans to allow widespread opening of shops on Sunday.

The irony of Mr Wilders-who markets himself as a champion for women's rights against Muslim oppression-and Mr Rutte's liberal VVD party relying on such antediluvian support hasn't passed unnoticed. Joris Voorhoeve, a former VVD chairman, summed up what many feel when he said that for today's party, liberal principles seem simply to mean the "freedom for the Dutch to earn money and consume".

As for Mr Wilders, a weakened government will now need his support more than ever in order to implement its unpopular economic policies, including proposed budget cuts of euro18 billion ($25 billion) that are vehemently contested by the opposition. Mr Rutte is hoping to sit tight until his austerity measures bring tangible results to sell to voters. And as long as Mr Wilders can use his half-in half-out role in government as a platform to shore up his public support, he will keep on playing.

A less disruptive eruption



Locally, the eruption of Iceland's Grimsvotn volcano was rather impressive, with a plume rising to the stratosphere and ash coating local farms and villages; much grander than the modest discharge from Eyjafjallajokull last year. But although its ash did interfere with some flights in the north of Europe, different weather patterns, larger particles and, crucially, a reluctance born of experience when it comes to closing down every airport in range made the long-distance effects much more tolerable this time.

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Turkish sex scandals

Feeling blue

Another opposition party is laid low by clandestine videos

WHEN it comes to sex scandals, Turkey is in the top league. Over the past weeks a series of compromising videos posted online has forced the resignation of ten senior members of the far-right Nationalist Action Party (MHP). Spy cameras placed in assorted boudoirs captured the men in the act; one allegedly with a 16-year-old girl. The videos' distributors say the exposes will continue until they have forced out Devlet Bahceli, the MHP leader.

The scandal could have an important effect on a parliamentary election on June 12th. Many MHP officials say the ruling Justice and Development (AK) party is behind the videos. AK, they say, aims to push the MHP under the threshold of 10% of the vote needed to win seats in parliament. (The MHP currently holds 70 out of 550.) This would give AK more seats and allow Recep Tayyip Erdogan, the prime minister, to write a new constitution tailored to enhance his presidential ambitions.

In the run-up to the vote Mr Erdogan has been unabashedly pandering to the nationalists. He is increasingly rude about the European Union and has gone so far as to declare that Turkey no longer has a Kurdish problem. Even more controversially, he has taken to attacking Kemal Kilicdaroglu, the leader of the main pro-secular opposition Republican

People's Party (CHP), for being an Alevi, a liberal branch of Shia Islam with 20m adherents in Turkey-with the subtext that he is not "a real Muslim". In Turkey Sunni Islam and nationalism have long gone hand in hand.

Not everyone blames AK for the leaked videos. Cevat Ones, a former deputy chief of Turkey's national intelligence outfit, insists the affair is an MHP inside job, prompted by dissatisfaction with Mr Bahceli. The party's ratings have been slipping since its leader urged supporters to reject constitutional changes in a referendum last year. That package, which among other things makes it possible to prosecute Turkey's meddlesome generals in civilian courts, was approved by 58% of Turks, many of them pious MHP voters. Mr Bahceli has drawn further ire by hinting that Turkey's largest and most influential Islamic fraternity, led by Fethullah Gulen, a Pennsylvania-based cleric, was responsible for the videos. The Gulenists, who largely support the government, are thought to have infiltrated the police. But the allegation is impossible to prove.

Regardless of who staffs the dirty-tricks department, it may have overplayed its hand. Some pollsters suggest that the MHP's plight has chalked up sympathy votes. And Mr Bahceli is widely credited with having prevented inter-communal fighting between Turks and Kurds by keeping MHP vigilantes off the streets.

Sexual blackmail is nothing new in Turkish politics. Last year Deniz Baykal was forced out of the CHP leadership after a video surfaced purportedly showing him and his mistress padding about in their underpants. Cetin Soysal, a CHP deputy, says at least 3,000 people, among them AK officials, have been wiretapped in recent years. Yet, he complains, the government has done nothing to stop it.

Still, as Turks muse over the latest scandal, one thing seems certain, notes Oray Egin, a popular pro-secular newspaper columnist who has watched the videos: "Turkish men...are useless in bed."

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Ratko Mladic

Caught at last

After 16 years on the run, the Bosnian Serb military leader has been arrested



No longer free to burn

STANDING on the hills above Sarajevo at the start of the three-year siege of the Bosnian capital in 1992, Ratko Mladic, the Bosnian Serb military commander, was infamously heard to demand that his men "burn" the citizens of the city below. The Bosnian war was brutal and cruel, and Mr Mladic was the most brutal and cruel of all its masterminds. On May 26th the Serbian authorities said he had been arrested.

Mr Mladic was indicted by the UN war-crimes tribunal for the former Yugoslavia in 1995. The charge sheet included genocide. This was because of his alleged role in organising the murder of 8,000 Bosniak (Bosnian Muslim) men and boys after the fall of Srebrenica in July 1995. In 2001 General Radoslav Krstic, Mr Mladic's subordinate, was convicted of genocide for his role at Srebrenica.

Soon after his indictment Mr Mladic disappeared. Up to a point. He was spotted at football games, and it was known where he lived in Belgrade. After the fall of Slobodan Milosevic, the Serbian leader, in 2000, Mr Mladic was no longer seen; but he was still protected by elements of the security services and the army. The new government, led by Zoran Djindjic, made a decision: it was too dangerous to tackle Mr Mladic and his protectors. Yet in 2003 Mr Djindjic was murdered. Ostensibly the killing was connected to organised crime-but those circles most probably overlapped with elements in the security services who were protecting Mr Mladic.

In 2008 the incoming government, led by the party of Serbia's president, Boris Tadic, arrested Radovan Karadzic, the wartime president of the Bosnian Serbs. There seemed no obstacle to arresting Mr Mladic, but by that time the authorities appeared to have lost track of him.

Serbia's failure to arrest Mr Mladic has badly slowed the country's European Union accession process. The Netherlands especially, whose troops were in Srebrenica in 1995, has fought to make Serbia's EU integration dependent on his capture. Now that he has been caught, a huge obstacle has been removed and Serbia could bound ahead. Polls show that most Serbs oppose extraditions to The Hague, where Mr Milosevic died in jail in 2006, but many also resent the way that Mr Mladic, and Mr Karadzic before him, slowed the rehabilitation of Serbia.

War crimes, and facing the past, are still controversial across the former Yugoslavia. The recent conviction by the war-crimes tribunal of two Croatian generals stirred anger in Croatia. In Bosnia Milorad Dodik, the president of the Republika Srpska, the Serb-run half of the country, provoked a crisis by claiming Serbs were being prosecuted more harshly than Bosniaks. It remains to be seen how the arrest of Mr Mladic will play in Bosnia and Serbia. One happy person is Milica Delevic, who oversees Serbia's EU integration. The arrest will establish trust, she says, and means that "we'll see the other process through." Amen.

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Charlemagne

The Obama tonic

The American president's message of hope could be useful in Europe



"YES, we can. *Is feidir linn*." Barack Obama's mantra translates easily to Gaelic, and it had the same electrifying effect in Dublin this week as it did in the United States when he was elected. O'Bama for the day, having discovered a droplet of Irish blood in his global ancestry, the president and his message of hope are the tonic that Ireland, and much of Europe, badly needs.

If a black man can become president in America then, yes, Ireland can surely recover from its crash. Later in London, where he was greeted with the best of British pomp, a regal Mr Obama confirmed that yes, even a reduced Britain can be a really, really special friend to America. And yes, David Cameron can win the war in Libya. His faith that time is running out for Muammar Qaddafi will also sustain President Nicolas Sarkozy of France who, still more than the British prime minister, has made the Libya campaign his own. And by hosting Mr Obama along with the other G8 leaders, Mr Sarkozy wants to show that, yes, he can defy the polls to win re-election next year. Finally, in Warsaw, Mr Obama was due to tell Poland that, yes, it can punch above its weight.

Mr Obama's trip to Europe was not unconnected with his own quest for re-election next year, if only by stirring the ancestral sensibilities of Americans of Irish and Polish descent. But there was serious foreign-policy business to be conducted as well. Mr Obama realises, like others before him, that the old allies are still the more reliable friends.

One of his tasks is to overcome Europeans' sense of being treated with disdain. Maybe it is the fate of junior partners to fret about being jilted. But remember how Mr Obama sent back the bust of Churchill that Tony Blair had given George Bush? Or the time he declined dinner with the Sarkozys to have a night out in Paris with his wife? Or his rejection of a tedious US-EU summit in Madrid? Or his wrong-footing of the Poles by abruptly changing America's missile-defence plans? Or his turning down an invitation to attend the 20th anniversary celebration of the fall of the Berlin Wall? As president, Mr Obama has seemed very distant from John Kennedy's "*Ich bin ein Berliner*". At least this week he laid claim to a bit of the Kennedys' Irishness.

In truth, Mr Obama was bound to get a good reception. For all the snubs, real and perceived, he remains popular in Europe (more so than in America). He sounds more "European" than recent American presidents; his latest declaration that settling the question of Palestine must take the pre-1967 borders (with land swaps) as a starting point for talks was hailed by one senior Eurocrat as evidence that "America has moved closer to Europe."

Mr Obama's tour comes when the two sides of the Atlantic are contending with the effects of the most acute economic crisis in eight decades. Both halves of the "West" are losing dominance, but the decline feels sharper in Europe. If Europeans once thought they could sacrifice some growth for the sake of more equality than America, many now fear they are being left behind, not just by America, but by new, rising powers. Fragmented into small and medium-sized states, many Europeans feel more exposed to global competition. But their effort to band together in the European Union is under strain. The crisis has exposed the weaknesses of the euro, immigration is challenging the system of open borders and rising Euroscepticism is questioning the very justification for the union. The war in Libya shows how badly even the most martial European states need America's help.

"At times I feel like a therapist," says one American official. "I keep having to tell Europeans that things are not so bad." Indeed, the European ideal sometimes seems more alive in parts of Washington than in European capitals. The Obama administration has repeatedly prodded Europeans to shore up the euro. Hillary Clinton, the American secretary of state, is the biggest believer in the EU's new but much-criticised diplomatic service.

The economic threat should be spurring America and Europeans to closer co-operation. At the height of the crisis they and others acted to stimulate their economies and save their banks. But now each country must cope with the resulting debts largely on its own (though those near collapse have been rescued).

Western ideals live on

Europeans need not lose heart. They have the economic resources to deal with the sovereign-debt crisis, if they can overcome the political obstacles to harnessing them. They need only look to Nordic states to see that it is still possible to combine strong growth with a high degree of social protection.

There is another reason to hope: look across the Mediterranean at how Arabs are demanding democratic freedoms. Plainly, aspects of the Western model are still attractive. America and European countries have been working for more than two decades to help the transition to democracy in the ex-communist states in eastern Europe. They should now seek to do the same in the Arab world in the coming decades, though it will be much harder. Indeed, given their proximity, and their direct interest in a stable Mediterranean, Europeans should take the lead.

The EU's oft-derided "soft power" could yet prove useful; a recent Gallup poll found that the EU is more popular (or, at least, less unpopular) among Arabs than America or major European states. The European Commission this week unveiled its plan for a "new and ambitious neighbourhood policy". It proposes conditional incentives to encourage democracy, including billions in grants and loans, "deep and comprehensive" trade deals for the boldest reformers and regulated migration.

It is not quite the Marshall Plan wanted by some, but it is the right start. It still has to be approved by member states. Can they overcome their exhaustion, self-obsession and defensiveness to embrace the Arab revolutions? Yes, they must.

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Privacy and the law

Keeping secrets in the age of tweets

Britain's privacy law is a mess-and increasingly unsustainable



TAKE the common-law principles of fairness, add a dash of European human-rights legislation, a lucrative tabloid trade in kiss-and-tell stories, an ineffective press watchdog, a touch of angst about secret justice and a technology that makes everyone into a publisher, and what do you get? The mess of Britain's privacy laws, now under sweeping review by a joint committee of both houses of Parliament.

The latest and most spectacular episode involves a married footballer, Ryan Giggs of Manchester United, who went to court to stop news organisations reporting on his alleged affair with a woman who, a judge said, may have been trying to blackmail him (she denies this). Mr Giggs gained the remedy he sought, but not the result: his private life became a public scandal, with his name featuring in fans' catcalls in the stadium, used as a catchphrase on talk-shows, broadcast by 75,000 Twitter users and ultimately, on May 23rd, mentioned in the House of Commons by a Liberal Democrat MP, John Hemming. Ordering the parliamentary inquiry, the prime minister, David Cameron, said the situation was "unsustainable". Few would disagree.

Britain, unlike France, does not have a formal privacy law. The European Convention of Human Rights, incorporated into national law in 1998, made things messier by enshrining two clashing principles: a strong defence of freedom of speech, and a more qualified right to the "respect of private life". Judges (as Parliament requested then) have been chewing over that ever since, issuing closely reasoned rulings that also reflect the Press Complaints Commission's definition of public-interest journalism. For example, the courts ruled that the *Daily Mirror* was justified in 2001 in printing most parts of a story of a model, Naomi Campbell, visiting a drug-rehabilitation clinic (because it exposed her as a hypocrite), but not the accompanying pictures (which intruded on her privacy).

Punishing those who gratuitously destroy privacy is one thing-and features in legal systems all over the world. Penalties for those who identify rape victims, for example, are usually severe. The real problem comes when judges try to protect privacy by stopping newspapers from breaching it in the first place.

The argument is a strong one: that a breach of privacy causes irreversible harm. In libel cases, untruthful damage to a reputation can be restored by an apology and damages; but once embarrassing private information has been disclosed, it stays public, no matter how the leaker is punished. However, the practical difficulties of protecting court-ordered privacy are increasingly daunting.

Anonymity orders are often issued against newspapers a few hours before publication as an interim measure pending a full hearing. That may keep the offending material from appearing explicitly in the mainstream media. But it does not prevent coyly coded references to a story appearing-which can be glaringly obvious to those in the know. And it does not stop a story-or perhaps exaggerated or incorrect versions of it-appearing on blogs, Twitter and Facebook. Tracing the identities of those who post such illicit material on social-networking sites, mostly based overseas, may prove impossible.

Once the news is out on the internet, Britain's fiercely competitive tabloids become frenzied in their attempts to reveal the full story first. In Mr Giggs's case, the big breach came when a Scottish paper, the *Sunday Herald*, ignored the injunction

issued by the London court. This is a legal grey area: Scotland has its own legal system, and prudent lawyers usually make sure that they apply for an "interdict" there to match any injunction obtained elsewhere. Mr Giggs's did not.

The courts' inability to stem the tide of technological tittle-tattle risks eroding the authority of the whole legal system. But secrecy corrodes it too. Some anonymity orders in recent years have been accompanied by such drastic restrictions that even their existence may not be reported: these are the so-called "superinjunctions" which, though rare, epitomise to many the problems in the current set-up. The same worries surround secrecy in family-law cases. Some MPs feel that judges have got too big for their wigs-for example, by becoming too fond of ordering litigants to talk to nobody about the case.

This raises deep questions. When one kind of supremacy-of a court order-clashes with the sovereignty of Parliament, Britain's unwritten constitution is frustratingly fuzzy. Mr Hemming's remark came in flat defiance of two senior judges who had considered and rejected applications to lift Mr Giggs's injunction, in the light of careful legal arguments and their own expertise. Mr Hemming's party leader, Nick Clegg, rebuked him, saying that MPs who dislike the law should "change it not flout it". It is unclear who might punish him, or how.

Diagnosing the problem is one thing, solving it is another. Mark Stephens, a media lawyer, argues that tabloid stories are soon forgotten if not accompanied by a legal kerfuffle. "You take it on the chin and it's tomorrow's fish-and-chip paper," he counsels (although betrayed spouses may not be so sanguine). In other words, treat privacy like libel, with penalties and remedies available only after publication.

Such an approach could be accompanied by a beefed-up version of the now-voluntary Press Complaints Commission, with statutory powers to protect privacy and punish newspapers that breach it, and tighter definitions of "the public interest" and of who counts as a "public figure" (see Bagehot). Tabloid editors would not like this, or a formal privacy law if it were similarly restrictive.

Many, not just self-serving tabloids, fear that such a law would be twisted by the rich, powerful and well-lawyered to conceal their misdeeds. Yet the idea of the press taking Twitter as its benchmark of newsworthiness seems equally distasteful. Privacy law, like the lives it sets out to protect, is a messy business.

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Britain and America

Essential, but fraying

Defence cuts could jeopardise Britain's security relationship with America



Struggling to be a team player

THE moment that Barack Obama knew for sure that Osama bin Laden was dead, he made two telephone calls. The first was to his predecessor, George Bush. The second was to David Cameron, Britain's prime minister. Despite some recent strains and the prevailing (mainly British) cynicism about the specialness of the "special relationship", it remains in pretty good shape. This week, in a newspaper article the two leaders wrote jointly to coincide with the president's state visit to Britain, they rebranded it the "essential relationship".

America has many other vitally important bilateral relationships. Some newer ones, such as the one with India, can appear to have a higher priority with the present administration. But there is no more intense and deeply embedded global-security relationship than the one with Britain. This week the two governments announced the establishment of a joint national-security strategy board, to be chaired by their respective national-security advisers, Tom Donilon and Sir Peter Ricketts. This was public recognition of both the sheer amount of stuff America and Britain uniquely do together in the fields of defence and intelligence, and the extent of what the two leaders referred to as their "common interests and shared values". The new board is to meet quarterly; its usefulness will be reviewed after a year.

Part of its purpose will be to iron out the kind of differences that have niggled over the past few months. Initial disagreements over Libya-silence from the president, something pretty close to scorn from the Pentagon-when Mr Cameron was trying to gather support to stop Muammar Qaddafi's brutal suppression of the uprising caused some consternation in London. Just in time, Mr Obama made his choice; and although Britain might have preferred a more "forward-leaning" approach from America to the military campaign, there is now broad agreement on who should do what. Although Mr Obama insists that this is primarily Europe's war to fight and win, America has quietly increased its contribution to the mission, mainly in the form of additional aerial refuelling and ISTAR (intelligence, surveillance, target acquisition and reconnaissance) assets. About a quarter of all NATO's Libyan sorties are now being flown by the Americans.

Recent tensions between Britain and America over Afghanistan also appear to have eased a little. Since bin Laden's death Mr Obama has moved closer to the British view that the recent military gains need to be backed up by a "political surge", which means trying harder to get talks going with the Taliban. In return, the Americans would like to see Mr Cameron talking less about 2015 as a hard date for pulling all Britain's forces out of Afghanistan, and more about a conditions-based timetable for drawing down the troops.

What concerns the Americans most, however, is the scale of the defence cuts Britain is embarking on. It is now apparent that because of unbudgeted commitments worth pound38 billion ($62 billion) that the previous Labour government allowed to pile up, the real reduction in military spending will be two or three times the 8% called for in last year's defence review.

One main reason why America sees Britain as such a crucial ally is that when it needs to build a coalition to deal with something nasty or dangerous, it can usually rely on Britain to be the first name on the teamsheet. But such is the likely degradation of Britain's military capabilities that its willingness to fight alongside America may no longer be matched by the means to do so. The "essential relationship" will not stay essential for long unless Mr Cameron is willing to spend a bit more on the things that underpin it.

North Sea oil

A deeper hole

The government's tax hit on oil producers may boost Scots nationalists

BRITAIN'S offshore oil industry has few friends, so the chancellor, George Osborne, may have thought he was safe to hit it with an extra pound1.8 billion ($2.9 billion) of taxes in his budget in March so he could afford to appease motorists with a cut in fuel duties. Unmoved by the industry's howls of protest, Mr Osborne maintains that the extra taxes will not have much effect on production. But at a meeting on May 23rd with Alex Salmond, Scotland's nationalist first minister, he discovered that the industry now has a formidable political ally.

Mr Salmond, an oil economist before he entered politics, is as concerned as any energy firm that production and profits might be clobbered. Buoyant tax revenues from the North Sea are vital to Mr Salmond's plan to persuade the Scots to vote for independence in a referendum he plans to hold about three years from now. But the industry reckons that, in the long term, the budget moves will cut the government's tax take, not increase it.

On May 26th Oil & Gas UK, a trade body, having surveyed how the budget had changed its members' plans, predicted that at least 25 developments with a total of more than 1 billion barrels of oil reserves were now less likely to go ahead, and that the closure of at least 20 ageing fields would be accelerated. This, over production lifetimes, would reduce tax revenues by pound15-20 billion. It would also mean the loss of 15,000 jobs that would otherwise have been created, and a pound50 billion increase in the cost of energy imports.

North Sea producers' problem is that most of the remaining oilfields are small, or in deep waters, or contain heavy oils difficult to extract, making them expensive to develop. As the oil from cheaper fields has run out, the government has progressively extended a system of tax allowances to offset the extra costs of the more difficult ones. To mollify the oil firms, it now says it will discuss how these allowances might be extended further.

But this, says Alex Kemp, professor of petroleum economics at Aberdeen University, would complicate further an already complex system. To qualify for a tax allowance, an oilfield has to have precise physical characteristics: how far it is from land, how deep the waters, and so on. Mr Kemp reckons it is impossible to design a system of allowances which can deal with every problem without causing anomalies.

The present tax system combines this lumpy system of allowances with a flat-rate tax on output. Since the allowances are, in effect, proxies for the investment costs of an oilfield, it would be simpler to tax each field on a sliding scale according to its return on investment, suggests Mr Kemp. This would make it easier to encourage the exploitation of marginal oilfields while optimising the tax take.

Although this would mean higher taxes on their most profitable fields, the oil companies are cautiously interested in the idea, says Malcolm Webb, Oil & Gas UK's chief executive. But he adds: "There is a difference between talking about such a tax regime and committing to the finer details." The government, for its part, would want to ensure that any new tax system did not make it easy for oil firms to cut their tax bills by somehow understating their investment returns.

Mr Salmond was sufficiently encouraged by the oil industry's response to give Mr Osborne a paper on Mr Kemp's idea. The chancellor politely said he would look at it. Behind the civility, however, there are high stakes. Oil firms have until now quietly opposed Scottish independence, fearing it would cause upheaval and high taxes. But Mr Osborne's tax rise,

which he imposed without warning, has so angered them-an executive at a smaller oil firm grumbles that Britain's tax regime has become less stable than Nigeria's-that they may be warming to Mr Salmond and his calls for Scottish self-rule.

Care for the elderly

An age-old problem

It will be hard to reconcile increased longevity with public spending cuts



But who will pay?

GROWING old may be preferable to the alternative but it is not without its problems: greying Britain will have increasing numbers of elderly, needy people to look after. On gaining power last year, the coalition government set up an independent commission to identify how to make long-term care affordable. Just as the commission is due to report, the problems it set out to solve are becoming more acute: another official body has called for the aged and frail to be given new rights to receive help, and cuts in central-government funding are forcing local councils to reduce the services they already provide.

Earlier this month the Law Commission, which helps Parliament tidy up legislation, recommended that councils be given wide-ranging new obligations to provide care to vulnerable adults, replacing the current, patchy set of entitlements. Fine in principle, but where will the money come from? A survey by the Association of Directors of Adult Social Services, published the following day, showed that councils in England intend to cut spending on adult social care by 7% this year, although they hoped to achieve much of that reduction in outlays through efficiency measures rather than service cuts.

The Law Commission report adds urgency to the quest for new ways to pay for care. At the moment, if a doddery old man is poor and has no family or friends to help out, the state will provide help at home free of charge; but if he has the means, he must pay for it himself. Should his health deteriorate to the point where he can no longer make a cup of tea, he will be encouraged into residential care. Again, if he is poor, it is free; if he is not, he must run down his savings and sell his home.

Most Britons would find it a wrench to give up the home they spent much of their working lives paying for. Indeed, in the run-up to last year's election the Conservatives provoked a frightful row when they exploited such fears by portraying Gordon Brown's suggestion that long-term care could be paid for from the estates of wealthy recipients as a "death tax". So the independent commission, headed by Andrew Dilnot, an economist at the University of Oxford, was asked to identify how people who had acted responsibly, saved money and bought property might be protected from financial ruin should they need expensive long-term care.

His report is likely to suggest some sort of insurance scheme. At present only a small proportion of people take out such policies: 7% in America, 5% in Japan and less than 0.05% in Britain, according to the OECD, a think-tank. To boost take-up, the state would probably have to underwrite any new scheme.

Insurance is not the only solution. The Joseph Rowntree Foundation, a charity, reckons that around 1m elderly homeowners have at least pound100,000 locked up in the value of their houses, but have incomes so low that they qualify for means-tested benefits and are struggling to get by. It has piloted a scheme with three local authorities in which such people-typically former tenants who bought their council-owned houses decades ago-can sell a stake in them (which the buyers would reclaim after their death) to pay for modifications, such as a walk-in shower, that would help them remain in their homes rather than go into a care home.

Take-up has been modest so far, says Clare Henderson of Islington Council in north London, which is participating in the pilot project. She expects demand to grow as people develop more confidence in such schemes. However, pensioners may take some convincing, given the widespread mis-selling of similar "home income plans" to elderly people in the 1980s.

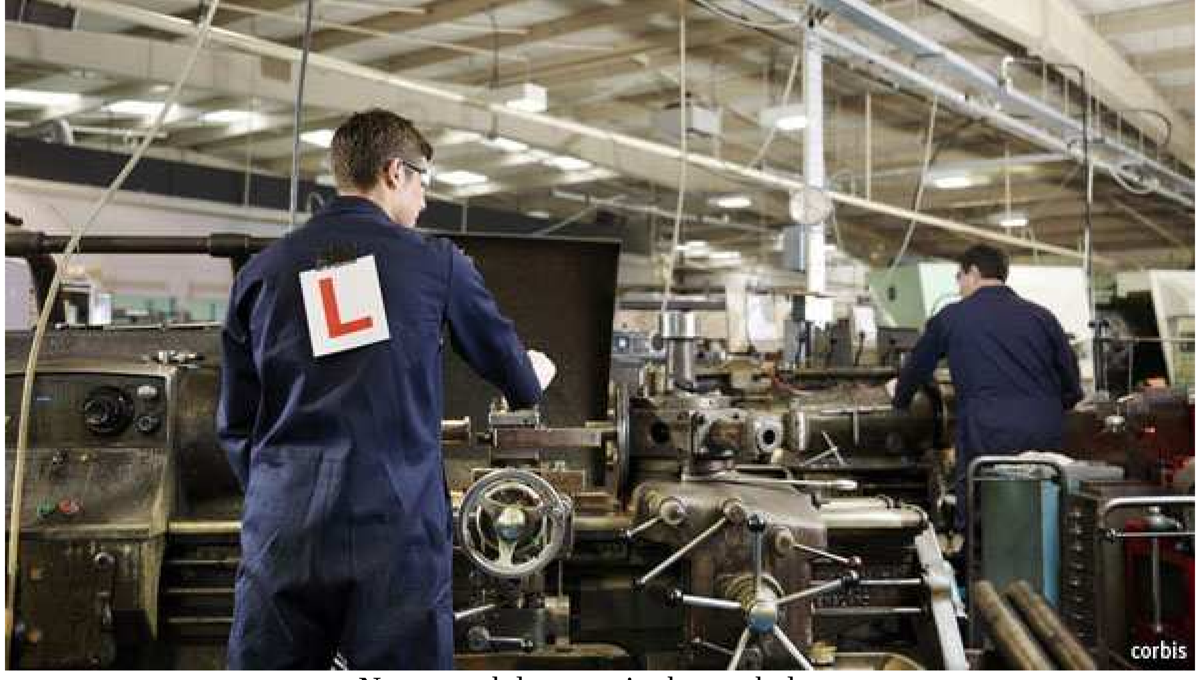
With the proportion of Britons aged over 65 projected to grow from 16% in 2009 to 23% by 2034, the need to find alternatives to taxpayer funding for social care will only grow. On May 23rd the OECD said that if health, pensions and social care were to keep pace with current provision, spending on them would have to increase from 15% of GDP to almost 19% between 2010 and 2050. Worry enough to turn any politician's hair grey.

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Business and skills

Restraining training

Bureaucracy is discouraging businesses from taking on apprentices



Not enough learners in the workplace

RACHAEL CARR left school in Poulton-Le-Fylde, in north-west England, in 2006, to join 300 other apprentices at BAE Systems. It cost the firm pound84,000 to train her in electrical engineering for three-and-a-half years. The government paid something towards it, and Ms Carr contributed to the firm's profits along the way, reducing to pound44,000 the net cost BAE reckons it incurred to train her. Now Ms Carr says, "I don't think I'll ever leave the company."

The previous, Labour-run government pumped money into apprenticeships, hoping to cut youth unemployment and boost productivity. In the four years to 2010 the number of young people in England embarking on them rose by 60% to just under 280,000, helped by the notable success of efforts to recruit older apprentices: the number of over-25s taking up tools rose from just 300 a year to 49,100.

The Conservative-led coalition is scrapping Labour's plan to guarantee apprenticeships to all young people with suitable school-leaving qualifications. But it is promising a modest boost, of pound180m spread over four years (compared with pound1.4 billion a year of subsidies now), to create 50,000 extra places on such schemes. Anything that reduces Britain's swollen ranks of unemployed 16-24-year-olds-who are now over 900,000-strong-is welcome. But for all the recent success in boosting the numbers of apprenticeships, there is a long way to go: only 8% of British firms offer them, compared with 24% of German ones.

BAE Systems, Rolls-Royce, BT and the like are to apprenticeships what Oxford and Cambridge are to degree courses: so many apply for their coveted places that most are turned away. Such engineering giants have the resources to negotiate the complex, over-regulated system of state subsidies for training. Not so smaller ones. Mark Snee, the owner of a printing firm in Leeds that employs 25 people, took on apprentices every year from 1999 to 2005. But the constant redrawing of rules forced him to give up doing so.

Labour's enthusiasm for spending on apprenticeships was accompanied by a mania for reorganisation and red tape. The plethora of agencies that finance, accredit, inspect and audit subsidised apprenticeships underwent various changes, leaving employers ever more confused. In 2005 the already stringent rules for becoming an accredited provider of apprenticeships were tightened further, with a requirement that any subsidised programme must have at least 50 trainees. For smaller firms like Mr Snee's, this meant that besides an existing requirement to send apprentices to college once a week to further their basic education, they also had to pack them off to an external training provider.

The result has been much paperwork, and much repetition of what trainees get taught inside and outside the workplace. The Confederation of British Industry says one of its member firms had to produce half a million documents to comply with regulations for its 1,500 apprentices. Hilary Steedman, an expert on training at the London School of Economics, argues that it would be better simply to leave all training to be done by employers themselves. However, there would presumably need to be some oversight of any taxpayer subsidies they got.

Britain has struggled for half a century to get its apprenticeships right. The underlying problem is that any firm that pays for training risks having its skilled workers poached by rivals that do not. A 1964 law introduced a scheme in which employers who provided apprenticeships were paid out of the proceeds of a levy on all companies in their industry. Businesses grumbled about the cost, and the scheme was scrapped in the 1990s.

Big employers seem keen to create more training places-in April, for example, HSBC bank announced a pilot scheme for 1,000 apprentices-and there is no lack of demand from unemployed youngsters. Governments have become more willing to make money available for such valuable on-the-job learning. But the problem is that it now comes with far too much bureaucracy attached, so for many smaller firms it isn't worth the bother.

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London's stockbrokers

The City that never shrinks

The share-trading business has defied predictions of a slump-so far

CITY folk never tire of saying that London's share-trading business is too crowded. Many saw the financial crisis as a reckoning. Bank failures would take out capacity, jobs would go and bonuses would shrink. Yet fund managers' inboxes remain stuffed with brokers' research notes; calls from salesmen are no less frequent; pay packets are just as fat.

What happened? The answer is that new firms replaced old ones. Nomura, a Japanese bank, snapped up Lehman Brothers' European stockbroking operation. Barclays bought the bust firm's American equities arm and then recruited analysts, salespeople and traders in London to build from scratch a European business to complement it. Rivals blame this hiring spree for pushing up City pay even in the aftermath of a huge banking crisis. Smaller outfits saw the crisis as an opportunity to bulk up by hiring experienced staff from struggling or failing banks. Even now biggish banks, such as Royal Bank of Canada, are expanding their equities businesses.

The enduring appeal of stockbroking seems odd given the pressures on trading revenue. Commissions have been pushed lower by cut-throat competition and new technology. A fund manager might have paid a commission of 30 basis points (ie, 0.3%) on a trade 20 years ago. Today a rate of 10-15 basis points is considered generous. The bigger brokers will allow clients to use their electronic systems to trade directly on the stock exchange for as little as three basis points, for the largest stocks.

Thinner revenues have not put off entrants, who are making one of two sorts of bet. The big ones hope to become one of a handful of "flow monsters" which can profit, despite the low margins, through hyperactive trading. Fund managers tend to direct most business to brokers who have the best deal-flow in certain stocks. Corporate clients looking to issue new stock will also favour brokers with a strong presence in trading. Small outfits complain that their bank-backed rivals often "buy" trading volumes at a loss, to attract high-margin business from firms raising capital.

The gamble smaller entrants are taking is that fund managers will reward them for a level of service that their larger rivals cannot match. "If you deliver what people want, they will pay you," reckons Simon Stilwell, chief executive of Liberum, a stockbroker started in 2007, which now employs 146 people. His firm looked for staff with established ties to big institutional funds, which will allocate a chunk of their commission to brokers with good analysts, salesman and traders. Recruits were lured from big rivals by the prospect of a share in the firm, which, like many small outfits, is employee-owned. Profits are more visible than at a bank, where losses in exotic ventures, such as derivatives trading, can drain the bonus pool. And small brokers, unlike big banks, are still permitted by regulators to pay all-cash bonuses.

A good small broker can flourish in the market's interstices-serving the clients the big banks neglect and providing specialist research. But they cannot risk the sort of capital that big banks will put up to facilitate trades in stocks. One solution, adopted by Redburn Partners, a research-led firm, is to trade stocks solely on an "agency" basis. That means filling a client's order swiftly and cheaply, by matching trades with other clients' or trading on exchanges.

Two changes in particular have helped small brokers to thrive. Cheaper computing has made it easy for small outfits to execute big orders swiftly without dislodging market prices. And a 2006 regulation required fund managers to specify the share of commissions they pay for executing trades and for research. This "unbundling" has allowed new entrants to capture a share of the commission pool. "If you've got the right content, you've got a business," says Jeremy Evans, founder of Redburn Partners.

Stockbroking's low entry costs mean that other firms will try their luck. There are plenty of underemployed stockbrokers with the guile to squeeze a few orders from their old pals on the buy-side. Some big new entrants will stick around. Even so, it seems unlikely that there will be enough commission to satisfy everyone. A reckoning may only have been postponed.

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Charity and volunteering

Time and money

The government's proposals to boost charitable giving are myriad but modest



CRITICS called it the umpteenth relaunch of a failed idea. David Cameron insisted that he was fleshing out his vision of a more philanthropic, civically active Britain. Either way, the government's white paper on boosting charitable giving, launched on May 23rd alongside a speech by the prime minister on "the space between the market and the state", confirmed that he is not giving up on his theme of the Big Society.

Many of his proposals look fiddly in isolation. The government, informed by research into behavioural science, hopes to "nudge" people into giving by making it possible to donate money through cash machines and introducing rewards for volunteering feats. There will be money-though, given the austere fiscal context, not much-for civic activity in poor areas, as well as for organisations that help to advertise and co-ordinate voluntary opportunities. The government, perhaps optimistically, hopes that lots of relatively small measures will add up to something big enough to rejuvenate Britain's third sector.

But critics wonder whether there is actually a problem to solve. Ministers say that the giving of time and money in Britain has "flatlined", but the country still scores well by international standards. The World Giving Index, put together by the Charities Aid Foundation, an organisation that connects donors with charities, surveys 153 countries to find how many of their citizens had given money or time, or helped a stranger, in the past month. Britain is eighth, comfortably ahead of comparable countries such as France and Germany, and not far behind world leaders such as Australia and New Zealand.

Even during the recession, a clear majority of Britons were making charitable donations. In his efforts to sell the Big Society, Mr Cameron sometimes portrays his country as one enervated by decades of big government. The reality is that his policies are building on an already quite high-minded and generous society.

Donations themselves may not bring about a bigger society if they go to a handful of large and famous charities that have many of the characteristics of corporations and enjoy close relations with the state. The most popular charitable cause among British donors is medical research, an area necessarily dominated by sizeable, professional organisations. It is small, local charities that really make up civil society. This is why the government's desire to encourage the giving of time, and not just cash, is far-sighted. People can send their donations anywhere, but are much more likely to give their time to nearby projects.

The politics of the Big Society remain difficult. The phrase was invented principally to describe Mr Cameron's mission to increase people power in the public services through self-run state schools, elected police commissioners and the opening up of data on hospital performance and crime. But charity and volunteering, areas where vivid policies are far harder to

come by, have come to be seen as the be-all and end-all of the Big Society. Many Tories want Mr Cameron to ditch the idea for good and stick to the bread-and-butter of the economy and the public services.

Behind the scenes, the Big Society has been beset by administrative chaos and a lack of follow-through. The day after Mr Cameron's speech, Lord Wei, a social activist and former management consultant who was put in charge of the policy, announced that he was leaving his role to return to community work.

So why does Mr Cameron stick with it? Partly because of the political calculation that he cannot be defined by spending cuts alone: he needs another, more optimistic narrative. But also because he believes in it. The telling aspect of Mr Cameron's upbringing was not its material privilege but its social wealth. He grew up in the Big Society; a village idyll of civic-minded neighbours, dutiful vicars and Rotary clubs. When he realised, fairly late in life, that some parts of Britain are desolate in comparison, he was moved to change that. The feasibility of his vision is questionable. The sincerity behind it is less so.

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Bagehot

Britain's feral press: a plan

Offer investigative journalists new protections, hang celebrity snoops out to dry



EVERY gang of rogues knows that, when it comes to agreeing an alibi, quality matters more than quantity. To a comical degree, that lesson is being ignored by the British press, as newspapers seek to justify reporting sex scandals involving the rich and famous, which became public knowledge after court injunctions were wrecked by campaigners on the internet and in Parliament.

The spring air has filled with excuses, as the press explains just why the public needs to know about alleged extramarital flings by Sir Fred Goodwin, an unpopular ex-bank chief, or Ryan Giggs, a popular footballer. Many of the alibis are weak. Taken as a whole, they are hopelessly contradictory.

Sir Fred's sex life is funny, suggests the *Sun*, with the front-page banner headline: "Fred the Bed". It is a grave matter, intones the *Daily Mail*: perhaps his libido distracted him as he led the Royal Bank of Scotland to disaster, costing the taxpayer billions. If his injunction had held, nobody would have known to ask this "disturbing question". What hogwash: follow that logic and nobody should fly without full details of their pilot's marriage.

In a single issue on May 24th, the *Daily Mail* simultaneously suggested that Mr Giggs deserved exposure because his lucrative "brand" was underpinned by a "clean-cut, family-man image", because he was a notorious "Lothario" dogged by rumours of serial infidelity, and because his name had been leaked on Twitter, unfairly disadvantaging "traditional newspapers" subject to gagging orders that cannot be enforced on foreign internet sites.

Married celebrities who cheat on their wives are selling the public a lie, newspapers declare: that is why we must expose them. Come off it. If tabloids really believe the exposure of sexual hypocrisy is their moral mission, how come they also report on the sex lives of unabashed bed-hoppers?

Newspapers denounce privacy injunctions as an elitist tool open only to the wealthy. It's a fair point-and would be neatly addressed by granting ordinary citizens legal aid to sue newspapers. Legal aid for privacy and libel suits is provided in France (home to some of the world's toughest press laws): is that really what British editors want?

Some grander dailies have attacked privacy injunctions as a judicial assault on parliamentary sovereignty. When Parliament approved the Human Rights Act in 1998, says the *Daily Telegraph*, MPs intended that freedom of expression should trump privacy rights "especially-but not only-in matters of public interest." This last phrase is the final giveaway. Strip away all the cant, and the campaign against injunctions is a power struggle. Sections of the British press are seeking not just to promote free speech over privacy, but to challenge the need to mount a public-interest defence at all. Some are already snarling with triumph: "Anyone thinking of taking out a gagging order now knows what to expect," as the *Sun* put it this week. But beneath the bully's swagger, there is also fear.

In a candid 2008 speech on press freedom, Paul Dacre, editor of the *Daily Mail*, admitted what was really at stake: commercial survival. If mass-market papers are not allowed to write about scandal as well as dry public policy, he said: "I doubt whether they will retain their mass circulations, with the obvious worrying implications for the democratic process." Newspapers have other reasons for fear. Fresh arrests were recently made by police investigating the alleged interception of voicemail messages on the mobile phones of the famous or newsworthy by gumshoes working for *News of the World* reporters. More arrests seem likely, and the widening of the phone-hacking scandal to other papers.

In a last-ditch defence, British hacks point to French counterparts who concealed what *le tout Paris* knew about Dominique Strauss-Kahn, the Socialist politician and former head of the International Monetary Fund, and his creepy ways with women. That's the effect of French-style privacy laws, British journalists say, and they are half-right: French law chills investigative journalism and gives politicians the whip hand. But the worst French censorship is self-imposed, as journalists preserve access to the gilded, incestuous circles of the Paris elite.

In any case, the British government is not about to propose a privacy law, ministers say. With the current system of injunctions crumbling, a committee is being set up to review press regulation. "The government is in a blue funk, I don't think it has any idea what to do," says someone involved in the review.

The famous are people, too

If France is a bad model, what about Sweden? There, a strong public-interest defence-stronger than currently exists in Britain-shields those writing about public figures such as politicians, senior officials or corporate chiefs. But the definition of "public figure" is tightly drawn, to exclude the merely famous. For instance, an adulterous footballer would not be fair game, says Ola Sigvardsson, Sweden's press ombudsman. Privacy is policed by self-regulation, backed by the threat of public humiliation: errant newspapers must publish press-council rulings across most of a page. This works, because readers "hate seeing such notices".

Could this work in Britain? The Swedes are pretty grown-up about sex, the British not. Swedish journalists are also rather respectable. British journalists know they-we-are below the salt, that reporters pursue a trade not a profession and can never be part of the Establishment. The British press at its worst is intrusive, sanctimonious and spiteful. Yet roguery can be a power for good: when the public interest demands, British hacks burn bridges and attack with rare vigour. Let rogues remain rogues, then. Offer the press a deal. A stronger shield in clashes with the powerful. But intrusion allowed only when it is in the public interest-no other alibis allowed.

Economist.com/blogs/bagehot

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Beautiful game, ugly politics

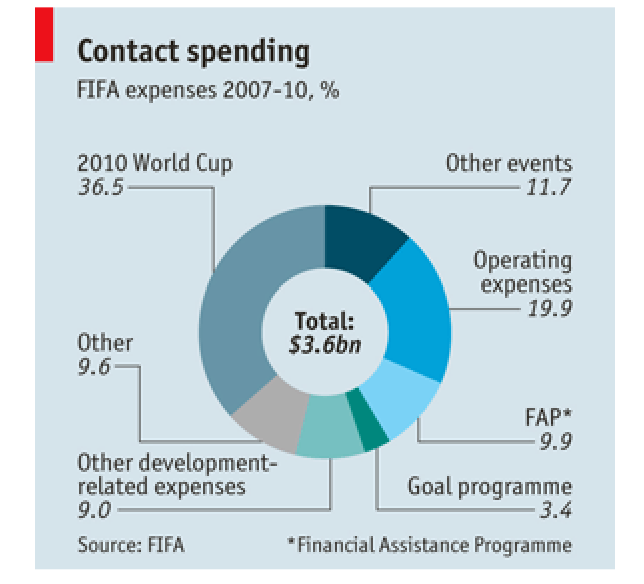
Pity the republic of football. It has a government much like many another



IN ZURICH on June 1st a presidential election is due to take place. It is a rare event, the first since 2002, with a mere 208 voters. No incumbent has lost since 1974, and the man in possession is expected to win again. The winner, despite his grand title, will not be a head of state. Yet he will be better known than many who are-and his writ, unlike any of theirs, runs the world over. The presidency in question is that of FIFA, the global governing body of association football; the electors are its members, national associations. Sepp Blatter, a Swiss, has had the job for 13 years and thinks he deserves four more.

On May 25th his only challenger, Mohamed Bin Hammam, a Qatari who was once an ally, faced an unexpected obstacle: allegations of bribery involving him and Jack Warner, a Trinidadian who heads a regional confederation with 35 FIFA members. The claims were made by Chuck Blazer, the American general secretary of Mr Warner's group, who sits with both men on FIFA's 24-member executive committee (in effect, its cabinet). FIFA's ethics committee is due to examine the claims on May 29th. The accused deny wrongdoing.

To some, FIFA's politics stank even before this. Earlier this month the former chairman of the Football Association, which runs the game in England, told British MPs that four members of the executive committee, which decides where World Cups should be held, had asked for, or hinted at wanting, payment in cash, kind or honour for their votes on the 2018 tournament. (Mr Warner was one of them.) The British press has unearthed other claims regarding votes for the 2018 and 2022 tournaments. Those involved in all this deny doing wrong; and accusations from Britain carried a whiff of bad grace, because England's bid for 2018 failed miserably. The latest claims, though, come from the heart of FIFA's political structure.



For good or ill, FIFA has much in common with governments whose territories are marked by customs posts rather than goalposts. Like national governments, sporting bodies provide collective goods for their citizens, notes Stefan Szymanski, an economist at Cass Business School in London. They also raise revenue and redistribute wealth. And they are prone to poor administration and to "rent-seeking"-attempts by interest groups, officials and other well-connected people to use their position to gain influence or wealth.

Start with public goods: in sport, the rules are the most fundamental. Football's "laws" are overseen by the International Football Association Board (IFAB), on which FIFA has four votes and the national associations of England, Northern Ireland, Scotland and Wales have one each, a legacy of the game's British birth. Six votes are needed for a decision. To many coaches and players, as well as commentators and fans, the IFAB has been too slow to allow modern technology, rather than officials' eyesight, to decide whether the ball has crossed the goal-line. Many other sports have embraced video and electronic gadgetry at their higher levels.

A sport's governors are also supposed to crack down on match-fixing. Football has been dogged by scandals in this area. The latest involved gambling rings in Asia and eastern Europe, and matches ranging from the lower reaches of European leagues to friendly internationals. On May 9th Mr Blatter announced a joint effort with Interpol, the global police agency, to stamp out this blight.

In a clearer example of a public good, football's masters have helped create a global market in talent and entertainment. This reflects a shift in FIFA's balance of power away from Europe which began in the 1970s, in healthy contrast with Euroheavy bodies like World Bank and the IMF. When Mr Blatter's predecessor, Joao Havelange, a Brazilian, ousted Sir Stanley Rous, an Englishman, in 1974 it was partly by promising non-Europeans more places at the World Cup. The 1978 tournament featured only 16 national teams, ten of them from Europe; since 1998 there have been 32 slots, with more for Asia, Africa, and North and Central America or the Caribbean.

This has not stopped European countries winning the past two World Cups. And it has helped Europe's clubs and national leagues. Teams such as Barcelona and Manchester United, who meet in the European Champions League final in London on May 28th, have fans all over the world. That means more money from television and merchandise. Globalisation has also deepened the pool of talent on which European clubs can draw.

Yet there are costs for clubs in Europe and elsewhere. They must release their players for World Cup and other international matches, from which the stars may return tired or hurt. They may view this as a tax in kind, even though FIFA paid them $40m in all for the use of players in the 2010 World Cup.

FIFA may not raise true taxes, but it finds revenue easier to come by than many national governments do. It has become increasingly adept at exploiting the power of the World Cup to draw a global audience. "France [in 1998] was the last poor World Cup," said Mr Blatter this week. In 2007-10 FIFA's revenue was $4.2 billion, up from $2.6 billion in the four years before that. Most of it came from the 2010 World Cup: television rights yielded $2.4 billion and marketing rights $1.1 billion.

Redistribution in FIFA's fief is called "development" spending, intended mainly to improve facilities and coaching in poor countries, which amounted to $794m in 2007-10. Some of this went into Goal, a programme set up by Mr Blatter that is

now overseen by Mr Bin Hammam. The six regional confederations and the national associations also got an extra handout from the World Cup windfall in the form of "extraordinary" payments within FIFA's Financial Assistance Programme. Finding a little extra money for voters just before an election is rarely a bad idea.

As for poor government, FIFA has been supplying examples for years. Take, as just one, the ditching in 2006 of MasterCard, FIFA's long-term credit-card partner, for Visa-a decision which drew a scathing rebuke from a New York judge. Andrew Jennings, a British journalist who has long been a thorn in FIFA's side, aired further claims of pockets lined and sins covered up in a BBC documentary on May 23rd.

Despite all this, FIFA's electors have not seemed ready for revolution. What effect the allegations against Mr Bin Hammam will have, no one knows. It is also hard to say how much would change should he, despite everything, manage to unseat Mr Blatter. Both men insist that FIFA is not corrupt; Mr Bin Hammam has made much of the need for more "transparency". Certainly, the world's most popular game needs a better government than the one it has.

Index | International

When states are sinking

I am a rock, I am an island

How submerged islands could keep their statehood



Hop, hop, hop, plop

STATES can die in obvious ways. They can be conquered, merge with the country next door, or cease to exist as a "geopolitical reality", as the leaders of Russia, Ukraine and Belarus triumphantly said of the Soviet Union in 1991, after killing it off. But what if a state ceases to exist as a physical reality-if it sinks, Atlantis-like, under the waves?

For low-lying islands like the Maldives or Kiribati, that is a very real possibility. Sea levels have risen by 20 centimetres (8 inches) in the past century. By 2100 they may surge by five times that, or even more if Greenland's ice sheet starts to collapse. Long before an islet submerges, it will become uninhabitable as inland waters become brackish and sea-defences fail.

So the legal implications of sinking islands are preoccupying environmental lawyers. Can there be such a thing as a submarine state? According to one definition, a state needs a clear territory, a permanent population and the ability to deal with other states. From a league or so under the sea, that sounds hard.

It may be a few decades before any states actually vanish, but a related problem-over rights to exploit minerals and fish, and how these are affected by receding coasts-is in even more urgent need of solution, says David Wei of FIELD, an NGO that looks at environmental law.

Under the Law of the Sea, coastal states and islands are entitled to territorial waters of 12 nautical miles, and an exclusive economic zone of 200 miles-and may claim rights over a continental shelf up to 350 miles away. Where coasts recede because of rising seas, so do the baselines from which such zones are calculated, many scholars say. But some authorities think baselines, once established, could be deemed permanent. That would protect countries from the effects of rising seas.

Adopting this idea would ease, but not totally solve, the legal problems created by disappearing states, according to Rosemary Rayfuse, a law professor at Australia's University of New South Wales. The people of a vanishing atoll might somehow retain their rights even if they migrated en masse to another country, or merged with another state, bringing their entitlements as a sort of dowry.

Yet current law lays down that only islands can support economic areas. Mere rocks, places which "cannot sustain human habitation or economic life of their own", have no such privilege. For that reason, Japan has been spending lavishly on shoring up what it calls Okinotori island, defying the Chinese claim that the place is just a rock. If rocks confer no economic rights, then the tips of palm trees, peeping over the waves, presumably cannot either.

In practice, the world would probably err on the generous side in dealing with nations exiled by waves. If a threatened island managed to keep an artificial, floating structure, occupied by caretakers, it could probably maintain its claim to statehood, according to Jenny Grote Stoutenburg, a participant in a conference this week at Columbia Law School.

Ms Rayfuse, meanwhile, thinks the world should rediscover the idea of "deterritorialised states"-entities like the Order of Saint John, a league of knights that was treated as a sovereign entity although it controlled virtually no territory. A new type of landless authority could still enjoy the rights, including maritime exploitation rights, that the nation used to have before the waves rolled in. If football authorities and social networks can turn into states of sorts, who needs a patch of sand?

Index | A special report on Australia

No worries?

With two decades of unbroken growth behind it, record prices for its minerals and an insatiable market on its doorstep, Australia can afford to be carefree. Or can it, asks John Grimond?



HAPPY THE COUNTRY that never makes the front pages of foreign newspapers. Australia is one such. Only a dozen economies are bigger, and only six nations are richer-of which Switzerland alone has even a third as many people. Australia is rich, tranquil and mostly overlooked, yet it has a story to tell. Its current prosperity was far from inevitable. Twenty-five years ago Paul Keating, the country's treasurer (finance minister), declared that if Australia failed to reform it would become a banana republic. Barely five years later, after a nasty recession, the country began a period of uninterrupted economic expansion matched by no other rich country. It continues to this day. This special report will explain how this has come about and ask whether it can last.

Those with a passing acquaintance of Australia will attribute its success to its luck in having such an abundance of minerals that its booming Asian neighbours want to buy. That is certainly part of the story. Yet Australia was not dragged down when a financial crisis struck Asia in 1997. And commodity exports have not always been fashionable. In the 1990s many thought they were evidence of an incorrigibly "old", low-tech economy doomed to decline. Australia's terms of trade-the ratio of its export prices to its import prices-seemed stuck at unfavourably low levels. Not until 2003 did minerals begin to boom again, though by then Australia had escaped both the Asian crisis and the recession that hit America in 2001. Five years later came the GFC, Oz-speak for global financial crisis. Yet that, too, failed to drive Australia into recession. Someone, other than Lady Luck, must have been doing something right.

Key figures

GDP - 2010: US$ 1,236bn
Per person, 2010: US$ 55,590
Average annual growth rate, 1992-2010: 3.4%

Government spending
As share of GDP, 2010: 35%

Exchange rates, May 17th 2011
1A$= US$ 1.06 € 0.75 £ 0.65

Where the Aussies score

PASSIONATE PUNTERS Gambling losses, US$ per adult, 2010	SPORTIEST - Medals gained at 2008 Beijing Olympics *(population, m)*
1. Australia: 1,281.3	1. United States: 110 *(300)*
2. Singapore: 1,167.6	2. China: 100 *(1,300)*
3. Ireland: 585.2	3. Russia: 72 *(143)*
4. Canada: 565.4	4. Britain: 47 *(62)*
5. Finland: 549.7	**5. Australia: 46 *(22)***

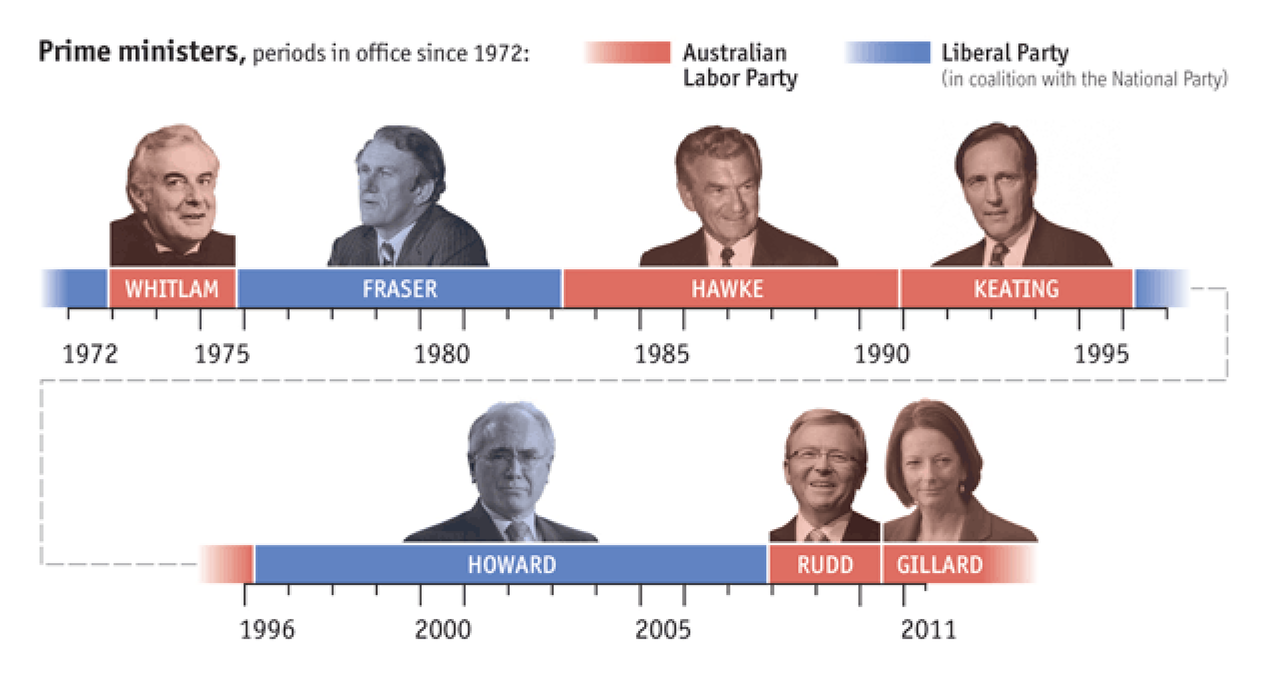
MOST URBAN POPULATION* As % of total, 2010	MOST-TRADED CURRENCIES Global foreign-exchange turnover, % of total†
1. Belgium: 97.4	1. US dollar: 84.9
2. Iceland: 93.4	2. Euro: 39.1
3. Israel: 91.9	3. Japanese yen: 19.0
4. Australia: 89.1	4. Pound sterling: 12.9
5. Chile: 89.0	**5. Australian dollar: 8.6**

*OECD countries †Total = 200% because each transaction involves two currencies

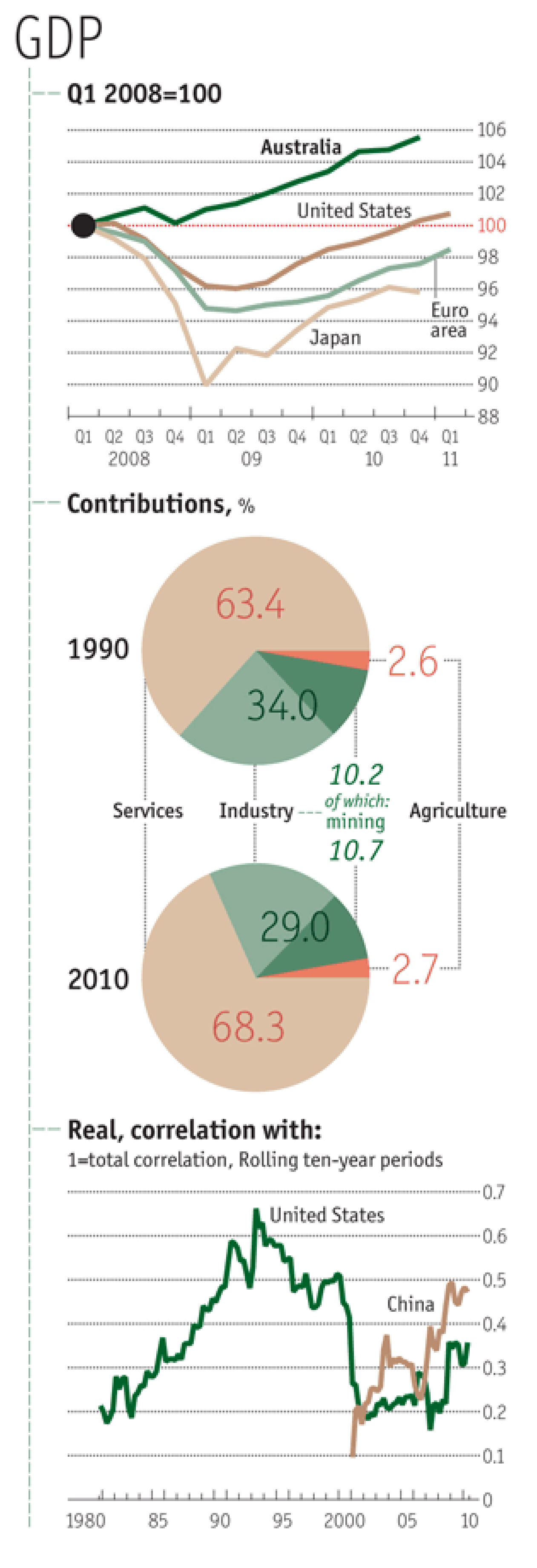
In this latest crisis Australia certainly played its cards well, but the pack had already been nicely shuffled. Over a period of 20 years, from 1983 to 2003, governments of the left and of the right carried out the reforms that have made Australia one of the most open and flexible economies in the world. That description would not have accurately described the country at any other stage in its history.

The incoming government in 1983 led by Bob Hawke, a former trade unionist, was the first to take serious remedial action. With the popular, politically astute Mr Hawke presiding, and the coruscating, aggressive Mr Keating doing most of the pushing, this Labor government floated the Australian dollar, deregulated the financial system, abolished import quotas and cut tariffs. The reforms were continued by Mr Keating when he took over as prime minister in 1991, and then by the Liberal-led (which in Australia means conservative-led) coalition government of John Howard and his treasurer, Peter Costello, after 1996.

By 2003 the effective rate of protection in manufacturing had fallen from about 35% in the 1970s to 5%. Foreign banks had been allowed to compete. Airlines, shipping and telecoms had been deregulated. The labour market had been largely freed, with centralised wage-fixing replaced by enterprise bargaining. State-owned firms had been privatised. A capital-gains tax and a valued-added tax had been brought in, and the double taxation of dividends ended. Corporate and income taxes had both been cut.



These reforms have done much more to transform the Australian economy than the recent improvement in the terms of trade. They have also transformed the country.



Constitutionally, they have destroyed the "Australian settlement"-a semi-tacit compact dating from the time of federation in which the market was tamed by trade protection, centralised wage-setting, a "white Australia" immigration policy and a paternalist state within a benevolent British empire. Most of this has now gone, leaving the way open for centralising federal governments in Canberra, aided by the growth of a national market in everything from advertising to Vegemite, to erode the powers of the states and their control of public money. For their part, some states are challenging the equalising allocation of value-added tax revenues. Republicans have sought to get rid of the monarchy, an imperial comfort blanket in 1901 that seems irrelevant to many in 2011. Aborigines, whose very existence was legally ignored by the European settlers, have fought for land, equal treatment and an apology for two centuries of injustice; now they want recognition in the constitution.

Demographically, by freeing the labour market and operating a colour-blind immigration policy, the reforms have created an increasingly cosmopolitan society. In the 1940s Australia was about 98% Anglo-Celtic; by the 1980s a few other Europeans, mostly Italians and Greeks, and latterly some Vietnamese, had started to leaven the mix. Today over a quarter of the population were born abroad, and most migrants, if they are not from New Zealand or Britain, are from India, China or some other Asian country. Asians make up about 10% of the population.

Psychologically, the reforms have changed what seemed to be a defining feature of Australians' national character: the happy-go-lucky belief that, though their country more than others might be a victim of external events, something would always turn up. Micawberism has been replaced by a realisation that Australians, like everyone else, have to be resilient, competitive and ready to take charge of their own destinies.

It is tempting to say the reforms have gone further, bringing to Australians a clarity of self-perception not always present in the past. Australians used to see themselves as sturdy pioneers, clearing the bush, rounding up sheep and doing battle with droughts, dingos and dastardly oppressors like the policemen who hunted poor Ned Kelly (never mind that he was a hostage-taker and murderer). But though their heart lay in the outback, the rest of their body was, at least from the mid-19th century, firmly in the city or, more exactly, in the suburbs, which is where most live today.

Infographic sources:
Access Economics; Australian Bureau of Statistics; BIS; Geoscience Australia; Grattan Institute; H2 Gambling Capital; UN World Urbanisation Prospects; national statistics

It would be asking a bit much to expect Australians to weave a new national myth around a suburban life involving barbecues, SSB (*semillon sauvignon blanc*), heroes driving Holden utes (General Motors utility vehicles) and characters from "Neighbours", a sunshine soap. Nonetheless, this era of prosperity and self-confidence should be a good time for Australians to take stock and confront any problems. On the face of it, their troubles are few: in 20 years of radical change all the obvious economic issues have been dealt with. Things are good, and the beach beckons. Certainly, the politicians seem unworried. Though they talk of reform, they spend most of their time scrapping about issues like climate change. A slight whiff of complacency pervades the groves of the capital, Canberra. That in itself should be a warning.



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The case for complacency

She'll be right

After 20 years of success, reform is a hard sell



Oresome

SOME POLITICIANS WIN power and do not know what to do with it. Others come to office determined to change everything and end up doing nothing. A respectable case can be made, in certain places at certain times, for concentrating on good management and making only a few big changes, but making them well. In Australia, this case rests not just on the thoroughness of the 1983-2003 reforms but on the fact that the economy has recently passed a stress test that all other rich countries' economies to some degree failed. The global financial crisis did not pass Australia by, but neither did it drive it into recession.

The first reason for that was the strength of the four big banks. They were strong partly because Australian banking had already been through some bad times. Two had almost gone under in the 1990s, when several state-owned banks foundered and others were taken over. That episode, and the Asian crisis of 1997, made them tighten up. Then came the collapse of HIH Insurance in 2001, which led to a revision of regulatory oversight. As a result, Australia's banks in 2008 had higher capital ratios than their counterparts in America and Europe and were watched over closely by an active and conservative regulator.

Even so, the banks were potentially vulnerable, because they were dependent on offshore borrowing and thus exposed to British and American banks. However, the big four were, by bipartisan agreement, though not by law, forbidden to take each other over. That meant they had no incentive to pump up their share price or earnings through dealing in dubious products. Nor, with plenty of domestic lending opportunities, did they need to make unduly risky loans and, though they held securitised (asset-backed) debt, they did not go in for the fizzing-firework variety, elsewhere passed so recklessly from hand to hand. In the last four months of 2008, when foreign lending dried up, the banks needed and got government guarantees, but had no need of the rescues required by their foreign counterparts.

The public finances were as sound as the banks'. Mr Howard's government had been running budget surpluses of 1-11/2% of GDP for a decade and had all but abolished the national debt. This allowed his Labor successor, Kevin Rudd, to provide two big fiscal boosts when crisis struck, putting the equivalent of nearly 3% of GDP into the economy in 2009. The government pumped out money to encourage public building, home insulation, car purchases and house-buying by first-time owners in schemes that many economists now see as excessively generous. The most effective stimulus, though, was the cheque for $900 that almost every taxpayer except the richest received in December 2008, of which about half was spent in two months. (All dollar figures in this special report are A$, unless otherwise indicated.)

The central bank moved fast and never fell behind events. Formally unshackled from government in 1996, though free in practice since the early 1990s, it had shown its independence by raising interest rates in the middle of the 2007 election campaign. Now it showed nerve too, quickly making dramatic cuts in interest rates, reducing the cash rate from over 7% to 3% in the four months from September 2008. It was able to do so because of Australia's structurally high rates, caused by the current-account deficit, which, in a country that always has to look abroad for capital, tends to run at 3-7% of GDP. The government's and the bank's actions, along with the reassuring speeches of its governor, Glenn Stevens, helped to damp down the early panic. And, once it became clear that Asia, and especially China, was going to rally, Australia was out of the woods.

In this crisis, as in the Asian one, the Australian dollar took much of the strain, dropping from about 98 American cents to about 60. It is now worth more than its American namesake-a vote of confidence in an economy that seems set to stay strong. And that is because of the demand for Australia's minerals.

Treasure island

Scratch around and you can find valuable stuff all over Australia. Olympic Dam, in South Australia, has the world's biggest uranium deposit, as well as copper, gold and silver. Victoria has quantities of brown coal. In New South Wales lies Broken Hill, whose silver, lead and zinc gave rise to a business that now, as BHP Billiton, is the world's largest mining company. Tasmania has tin and gold. But Queensland and Western Australia are causing the most excitement.

Coal is still Australia's main minerals export, and Queensland produces about a third of the world's coking variety, the kind used to make steel. The hot new product in Queensland, though, is coal-seam gas. When Queensland in 1998 mandated that 13% of its electricity should come from natural gas, companies went out to look for it and found enough in the state's coal seams, they believe, to power a city of 1m people for 1,000 years. The country's main industrial research organisation thinks Queensland and northern New South Wales together have about 200 years' worth of gas at current rates of production.

Most of the country's gas, however, lies under the seabed, from which it is now being energetically extracted. Whereas Australia's oil production, worth well over $30 billion a year, has declined since 2000, gas is growing. Most of it comes from off the coast of Western Australia, and most of this, like the coal-seam gas, is destined for Asia. The richest field is Gorgon, on Barrow Island in the north-west, on which Chevron is spending US$39 billion. It is the biggest project of any kind in Australia and the biggest Chevron has undertaken anywhere.

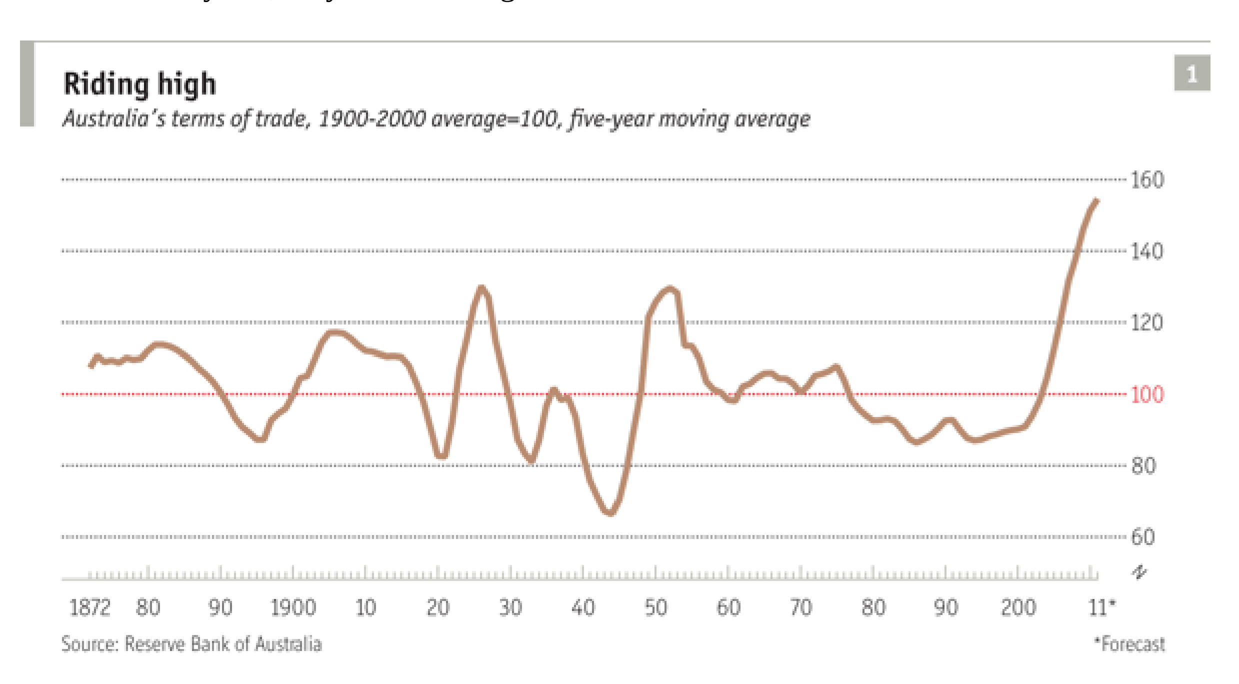


Asia is eager to buy natural gas, and Australia is well-placed to supply it. It takes seven to ten days to ship liquefied natural gas from Western Australia to customers in Asia, which is about half the time it takes from the nearest alternative suppliers, in the Middle East. That gives Australia a decisive advantage.

The advantage is even more important for Western Australia's other booming export, iron ore. Unlike gas, iron ore is plentiful: most countries have it. The stuff that abounds in the Pilbara, the apparently endless expanse of baking low hills that extends across the north of the state, is relatively high grade-and relatively close to its Asian markets. It does not cost much to scrape it up; the expense comes in moving it from mine to market. Even so, Australia can produce iron ore for $25 a tonne and sell it for $150.

The Pilbara has been exporting since the 1970s, when Australia overcame its antipathy to the Japanese and started selling them iron ore in a big way, so expensive rail lines have now been laid and harbours built. Demand seems assured. Australia's central bank thinks another 300m-400m Chinese will move into cities by 2030 to join the 400m who have already done so in the past 30 years. And India, Vietnam, Indonesia and other Asian countries are also growing richer, building railways, making cars, urbanising. All will need iron ore. A typical Chinese apartment needs about six tonnes of

steel and a kilometre of underground railway about 7,500 tonnes. Each tonne of steel needs 1.7 tonnes of iron ore and more than half a tonne of coking coal. Australia has plenty of both. Brazil's ore may be superior, but Qingdao in China is 35 days' sailing (round the Cape) from Tubarao in Brazil; from Dampier in the Pilbara it is 11. When freight rates are low, as they are today, the cost saving is US$12 a tonne. Three years ago it was US$40. And no one expects the Pilbara to run out of iron ore for at least 30 years, maybe much longer.



These statistics reflect an astonishing transformation of Australia's fortunes. For most of its short history-the First Fleet arrived in Botany Bay on January 18th 1788-the terms of Australia's trade have fluctuated, and bust has followed boom. For 35 years after 1950 the trend was remorselessly down, even taking account of improvements in the 1950s after the Korean war and the oil shocks of the 1970s (see chart 1). Now the terms of trade have reached new heights. As the central bank's Mr Stevens has put it, five years ago a shipload of iron ore would have bought about 2,200 flat-screen television sets; today it buys about 22,000. That is partly because import prices have fallen, but more because export prices have risen. Neither trend can continue indefinitely, but the average terms of trade over the next two decades are likely to be higher than over the past three.

This big change coincides with another: Australia's economy-and with it inflation, interest rates and house prices, though not the stockmarket-has decoupled from America's. A decade or so ago Australia's GDP growth closely matched America's, but the correlation has become much less marked, whereas that with China's has got stronger. It all points to a rosy period ahead for Australia. Even if Chinese growth stutters, runs the thinking, even if China goes through a period of political upheaval, the appetite for development will not disappear, either there or in most other Asian countries. Billions of Asians are eager to join the middle class, and Australia is on their doorstep, ready to provide not just iron ore, coal and natural gas but all sorts of other minerals, and beef and mutton to boot.

So Australia's position on the world map is no longer a handicap. Indeed, the tyranny of distance, so long bracketed with drought as Australia's enduring curse, has been turned on its head. It is now the Antipodean advantage of adjacency.



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Super-duper supers

In Australia's superannuation scheme, everyone's a winner

TWENTY YEARS OF reform in Australia did not roll off without resistance, so sweeteners were needed to buy off opposition. One of the most inspired was superannuation, a long word meaning private pension provision that the all-abbreviating Aussies call their "super". Used in the 1970s and 1980s to please trade unionists (and helping to keep a lid on inflation), it has turned into the financial equivalent of the Swiss army knife, with a multiplicity of benefits.



In 1992 the Keating government made it mandatory for employers to pay a proportion of the wages of all but the very lowest-paid workers into a superannuation account. The payment, which was tax-deductible, was to rise in annual steps to 9%, where it is today, though by 2019 it should be 12%. Employees choose the funds that receive their payments.

The upshot is that most Australian workers, over 8m in total, now have a private nest-egg for their old age. No tax is paid when members withdraw from their fund; they can take all they want as a lump sum, subject to a limit, or buy an annuity. Aussies are now a nation of capitalists.

At the same time the state pension system, and therefore the taxpayer, is being progressively relieved of most of the burden of retirement provision, since eligibility for the state pension depends on both assets and income. As supers take over, the provision for old folks' incomes will be almost entirely based on defined contributions, not defined benefits. So Australia is in the happy position of not having to worry too much about the pension implications of an ageing population, though it may have a problem for six or seven years after 2014 when the post-war baby-boomers stop work with supers only half filled.

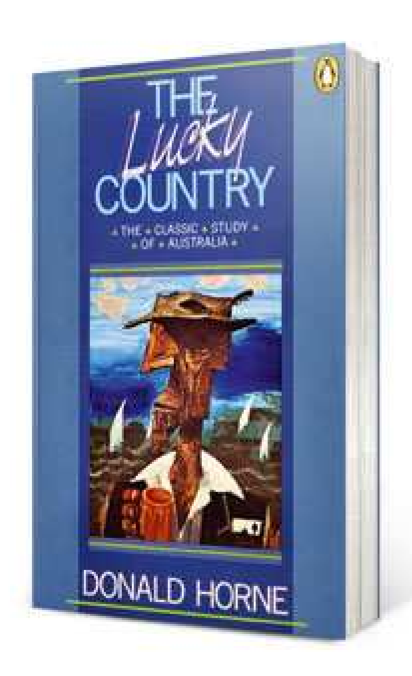
The supers have not pushed up the savings rate, but nor have they increased unit labour costs. Instead, they have created a pool of capital in Australia that might not otherwise have existed. Collectively worth about $1.3 trillion-much the same as GDP-they have made Australia the world's fourth-largest market for pension savings. About 40% of their investments are in Australia, but they are free to invest where they like. Investment managers are coming to Sydney from all over, drawn by the prospect of ten $100 billion pension funds within 20 years-a fillip for Australia's financial-services industry.

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The case for action

Be prepared

Booms have to end, but not in tears



ON BALANCE, IT seems improbable that Australia has discovered the secret of eternal prosperity and that the current alignment of low import prices, high export prices and a voracious Asian market will endure. Why not therefore use the good times to attend to some of the things that may need doing when the country's luck turns?

Past booms have generally ended in inflation, high interest rates and recession. Even if the floating of the dollar and the deregulation of the labour market make such an outcome less likely now, some changes would be desirable. They may, indeed, be overdue. The great reform era came to an end in 2003, when Mr Howard had been in power for about seven years. He had only one big effort left in him, a final attack on the labour market, made in 2006. That, however, proved too fierce in restraining union power and the right to strike and was largely unwound by Mr Rudd after 2007.

The main features of the economy now are the dominance of the resources sector, the effect this has had on the exchange rate (which rose to a 29-year zenith this month) and the effect this in turn has had on other industries, especially those directly exposed to trade. Mining gobbles up huge amounts of the available investment yet provides very few jobs directly, and then mostly in only two states, Queensland and Western Australia. Industries like tourism, wine (see article) and education are gasping.

Can anything be done to restore balance? It is tempting to think so. Australia's commodity exports this year are expected to be worth $221 billion and next year $251 billion. The mining companies, even had they done nothing to increase production, would have seen a fortune cascading into their pockets simply because of rising prices. As it is, BHP Billiton, a British-Australian company, announced half-yearly profits of US$10.5 billion in February, up 72% on a year earlier, and profits for the whole of this year are expected to be US$23 billion. It is now the world's fifth-biggest company. Its great rival, Rio Tinto, also British-Australian, declared profits of US$20.6 billion last year, up 162%. And Swiss Xstrata, Australia's third big mining company, in 2010 made profits of US$6.6 billion, up 337% on the year before.

Figures like these, in circumstances like Australia's, seem to call for a tax of some kind. As it happens, taxation has been on the agenda for several years in Australia. In 2008 the head of the Treasury, Ken Henry, was asked to suggest some ideas for reform. He produced 138, one of which was a proposal for a super-profits tax on resources. Mr Henry wanted to use this to lower corporate taxes by five percentage points, spreading the benefits of the mining boom to other parts of the economy. Two years later, with an election looming, the prime minister of the day, Mr Rudd, thought this would be popular and suddenly adopted an amended version as policy. Incensed, the mining companies embarked on a national campaign to kill the tax. Mr Rudd, having also decided to abandon a supposedly cherished trading scheme for carbon emissions, was deposed by his colleagues and swiftly replaced by Julia Gillard, now the incumbent, who dropped Mr Rudd's tax proposal and negotiated a new one with the mining companies. A gentler "resource rent" tax on iron ore and coal, like another on oil and gas, will now be levied from July 2012. Over ten years it is expected to raise $100 billion less in revenues than Mr Rudd's. As for the mining companies, they have won a far higher rate of return on the $22m they spent on their six-week campaign against the tax than on any hole they have ever dug in the Pilbara.

The Gillard government's priorities are to return the budget to surplus by 2012-13 (the forecast for 2010-11 is a public-sector deficit of 3.6% of GDP) and then establish "sustainable" budgeting. It also wants to increase capacity and productivity by spending money on infrastructure, helping to finance the rise in the employers' superannuation contributions from 9% to 12% of salaries (see article) and installing a national broadband network in the country's biggest ever infrastructure project.



It seems churlish to carp when Australia's public finances are so much stronger than most other rich countries', but that is precisely why it should be putting some of its windfall revenues into a fund of some kind. The government points out that it already has the Future Fund, with assets of over $70 billion, which was set up in 2006 to help pay for public-sector pensions. And the $1.3 trillion in superannuation funds is a pool of savings that officials like to say is akin to a rainy-day fund. But many believe Australia should also have a sovereign-wealth fund.

An argument against it is that one government would build it up and the next one recklessly spend it. That was the fate of a state budget surplus in Victoria in the 1990s, making the Howard government decide to limit the federal surplus to 1% of GDP. It did set up the Future Fund, which was later raided for the broadband network. But other surplus revenues were unproductively ploughed back into the economy by the Howard government, so Australia now has little to show for the boom of 2006-07.

Some Australians point out that their windfall reflects a broad change in the terms of trade; it does not reflect the exhaustion of a finite resource. But a sovereign-wealth fund could also act as a fiscal stabiliser, taking demand out of a strong economy and returning it when needed.

Some argue that the fund, or part of it, should be used for infrastructure spending. Others retort that by adding to aggregate demand, this too might serve to reinforce the cycle rather than counter it. But a fund of any kind can be useful in an emergency, as Australia's surplus, although limited to 1% of GDP, proved during the world financial crisis. A bigger pot of money would have been better.

Meanwhile, health care, housing, a skills shortage and climate change all require attention. The universities, too, will need much more money and nurture if Australia is to compete with foreign rivals. The country has six or seven good universities, but even the best of these-Australian National, Melbourne and Sydney-do not do brilliantly in world rankings, and none at all features in the top 50 of the widely used Shanghai table. This matters. Education, through the foreign students who come to study in Australia, is already the country's third-biggest earner of foreign exchange. Yet some say standards are not as high as marks suggest, and that the universities and technical colleges are not producing as many graduates as the economy requires. If Australia is to compete in anything other than iron ore, it will need a highly educated workforce.



Linked with this is the problem of productivity. Having surged in the 1990s, multifactor productivity growth stopped around the end of the century and then turned negative about five years ago (see chart 2). No one quite knows why. One suggested explanation is the drought that affected most parts of the country with varying degrees of intensity over the eight years to 2009. Another is that investment in mining takes a longish time to show effects. A third is that during the financial crisis employers, habitually short of skilled workers, hung on to their staff, reducing their hours rather than sacking them; the result was reduced output per worker. A fourth is that Australia is too highly regulated, and often inefficiently so.

Saul Eslake, of the Grattan Institute, a think-tank, sees scope for reforms to encourage competition among chemists, lawyers, doctors and other professionals, as well as small businessmen like newsagents and entire industries like international aviation and agricultural marketing. Defence procurement could also be freed from some of its buy-Australian constraints.

No one expects changes to come quickly, though. That may be partly because Australians are surprisingly tolerant of regulation. They may pride themselves on their rebelliousness, but it coexists with a paradoxical deference to the rules that those in authority so enjoy imposing. Such injunctions as "No person shall climb any tree or jump over any seat or fence, or lie upon or under any seat" and "No aircraft may land" that used to greet strollers in the Domain, Sydney's central park, in the 1980s have been taken down. But the friendly dogs that sniff passengers at Australia's airports, even many travelling internally, in the search for a contraband apple or banana reflect a love of regulation that rivals India's licence raj.

The states, all Labor-run for most of the 2000s, are responsible for much of the rule-making, and should now attend to the unmaking of some regulations and the harmonisation of others. The reconciliation of rules supposedly takes place in the Council of Australian Governments, but agreements made there are not always followed through with vigour. And some states are far from ready to accept the concept of a seamless national economy. Though agreement has been reached by four of them to introduce the principle of national regulation of lawyers, for example, South Australia and Western Australia are holding out.

For its part, the federal government needs to overhaul the tax system, using it to do some of the work that regulations do at present and raising the rate of value-added tax from its current 10% to allow reductions in the burden on the low-paid, small businesses and others. The Henry tax review, now 18 months old, offers plenty of other ideas.

The effects of falling productivity growth are well disguised at present but none the less worrying for that. They will surely become apparent if the terms of trade fall-and by then the problem may be difficult to put right. Some, such as Warwick McKibbin, an economist at Australian National University, believe the current boom could end as soon as 2014, if asset-price inflation takes off in America and other countries, leading to declining terms of trade and a falling exchange rate in Australia. That, says Mr McKibbin, would leave the central bank-on whose board he sits-with no choice but to increase interest rates. Meanwhile, imports will become more expensive and new producers of iron ore and other minerals will get going, bringing down prices. Plop, too, will go the terms of trade.

High dollar, high dolour

Inundated by a surfeit of wine



FOR YEARS AUSTRALIA'S wine producers had drought to contend with. This year it was rain. Biblical downpours brought mildew, causing many growers to spend about three times as much as usual on spraying their vineyards. Most growers had hoped that last year would mark the bottom of a cycle. Prices started rising in 1987 and reached a peak in the mid-2000s but then started to fall. Unfortunately, the oversupply of grapes that has been both a cause and a symptom of the recent price decline is set to continue for a sixth season. Worse, the dollar has strengthened again, encouraging Aussies to drink more imported wine and making it even harder to sell their own products in the all-important export market, especially in Britain, the biggest customer.



Back at the start of the cycle, Australian wine was pretty cheap in Britain, but since then the dollar has appreciated by about 40% against the pound, much more than the currencies of Australia's main wine-making competitors. The huge increase in production that came with the boom has caused a glut: a surplus of 100m cases lies unsold and is growing by 20m-40m a year. In 2009 industry organisations said that at least 20% of the country's vines needed to be uprooted, but only 4.3% had been taken out of production by March 2010, though the grapes in about twice that area were left unharvested last year. Many vineyard owners say they cannot find buyers for their land. Others are simply waiting for better times: surveys suggest that only a quarter of growers depend on grapes for their livelihood.

As a result, cheap Australian wine is now being unloaded in vast quantities: exports of bulk wine selling at under $1 a litre (less than the cost of production) rose by 85% last year, helping to explain why the volume of exports has risen by 10%

since 2007 but their value has fallen by some 20%. Australian wine is known abroad for decency and consistency rather than excellence. Now the fear is that it will acquire a reputation for cheapness.

Jacob's Creek, part of Pernod Ricard's Orlando Wines, sells 80% of its production abroad. This year it is reducing the volume that goes to Britain, a large part of its market, while increasing prices. Orlando hopes that Asia, especially China, will take more imports. Like family-owned Yalumba farther up the Barossa valley, it is also trying to satisfy the changing tastes of Australian drinkers who now want lighter, less oaked and less alcoholic wines, and new varieties and sparklers too. But the Australian market is mature and highly competitive. Besides, it takes at least three years, and often five or seven, from planting or grafting a vine to get anything decent from it. In the meantime winemakers need to make profits on their current products.

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People

The evolving platypus

A distinct society, perhaps becoming less so



The invaders arrive

WHO ARE TODAY'S Australians? Not yesterday's. Most of them are of either British or Irish stock, and the city centres still teem with Britons, who remain the biggest group of migrants. Even so, immigration from places other than the British Isles has transformed the nation. Over 26% of Australia's 22m population were born abroad, compared with 21% in Canada, 14% in America and 10% in Britain. And, until 2009, Australia was welcoming more and more people each year: net immigration (the definition is confusing) rose from about 160,000 in 2004 to over 300,000 in 2008, though two-thirds of those were classed as temporary migrants. Many, however, will eventually be given the right to stay, as thousands of students and asylum-seekers have been.

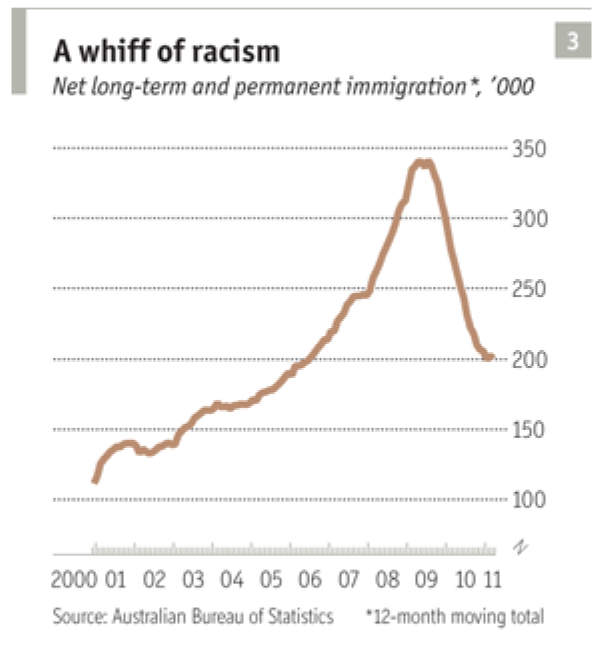


Immigration is good for the economy. Over the past 40 years population growth has been responsible for about two-fifths of the growth in real GDP. As Mr Eslake of the Grattan Institute has pointed out, without it Australia would have slipped into recession in 2008. Increasingly, the people admitted through its managed-migration programme bring skills that are in short supply in Australia. In an economy close to full employment-the jobless rate was 4.9% in April-this pleases business. The public at large are further reassured, it is said, by the knowledge that the system is orderly: targets are set and met, and the country benefits from a supply of trained people who come not just with qualifications but probably also some experience, often after waiting a few years to get in.

The country also has a humanitarian programme, which granted 13,000-14,000 resettlement visas a year to refugees and asylum-seekers between 2005 and 2009. The refugee visas are given to applicants abroad who are deemed to have a well-founded fear of persecution, in accord with the United Nations definition of a refugee. Asylum-seekers turn up without permission, sometimes in boats and nearly always after a long journey from places like Sri Lanka or Afghanistan, organised by professional people-smugglers. Most of the 944 people who arrived by sea in 2008-09 were found to be genuine refugees (indeed almost all asylum-seekers in the past three years have been allowed to stay), but boat people are often seen as queue-jumping economic migrants who, if accepted, might undermine the entire immigration programme.

That, at least, was Mr Howard's view. In an attempt to quieten a hysterical fuss about boat people, he adopted the "Pacific solution", the interception of boats at sea and the removal of their human cargo to reception camps on distant islands such as Nauru. The policy went down well with some Australians but horrified others, and Mr Rudd changed it when he came to power, closing the camps on Nauru and Manus (in Papua New Guinea), though keeping that on Christmas Island, an Australian possession 1,550km north-west of Western Australia. These days Mr Rudd, who is now foreign minister, is hoping to persuade Australia's neighbours to act against the traffickers and thus stop the flow. China and Thailand are co-operative; and Malaysia has agreed to take the next 800 people to wash up on Australia's shores, in return for Australia's acceptance of 4,000 refugees from Malaysia in the next four years. This is meant to deter the smugglers. But since they have powerful friends in Indonesia, from which most boats set sail, it may not.

Immigration is a constant source of controversy. On the day in February that some boat people were burying relations who had drowned in a shipwreck three months earlier, Scott Morrison, the Liberal spokesman on immigration, attacked the government for paying for them to travel from Christmas Island to attend the funeral in Sydney. Poor timing, he acknowledged; others thought poor taste. The number of people arriving by boat last year, even after a huge increase on the year before, was only 6,535, and in the first quarter of this year 771 (when Lampedusa island, off southern Italy, received 15,000 in ten weeks). Most asylum-seekers arrive by air, yet politicians seldom mention them. The national terror seems to be of an attack by sea, though no maritime invaders have landed in Australia since the aborigines came some 40,000-80,000 years ago.



That net immigration has started to fall since 2009 (see chart 3) is one regrettable outcome of the fuss. The whiff of racism is all the more disturbing because in most other respects Australia seems rather free of xenophobia. There were nasty riots in 2005 in a suburb of Sydney, and some ugly attacks on Indian students in Melbourne last year. But generally race relations are harmonious, partly perhaps because for many years the main parties refused to make populist appeals. Now Labor and Liberals, with honourable exceptions, compete to pander to primitive fears about boat people, especially in suburban swing seats.

They do not, however, seek to exploit the plight of the main group to have experienced discrimination in Australia: its oldest inhabitants, the aborigines. Their position in society has been vastly improved by court judgments, notably the *Mabo* decision of 1992, in which the High Court recognised aboriginal title, rejecting the doctrine of *terra nullius*-the idea that Australia was empty when the Europeans arrived and the land belonged to no one. Some aboriginal groups now have considerable incomes from mining royalties. And the mining companies, having been intensely hostile to land rights, make great efforts to employ aborigines. Many other companies have initiatives of their own.

Saying sorry was nice, but not enough

The federal government has also had a change of mind. Under Mr Howard, it firmly refused to issue an apology to the "stolen generations", the children taken away from their families by the authorities to be brought up by white Australians. Mr Howard argued that he could not take responsibility for the actions of people now dead (the policy, started in 1869, lasted until 1969). In 2008 Mr Rudd, soon after becoming prime minister, did make an apology, supported by the Liberal Party, which seems to have gone down well, especially among the indigenous population.

Much more controversial is a policy known as "the intervention", started in 2007 by the Howard government and continued under Labor. It was a response to the horrifying incidence of child abuse among the indigenous population, the product perhaps of unemployment, drugs, drunkenness, family breakdown and despair. As well as banning booze and pornography, it quarantines part of welfare and other government payments to the inhabitants of 73 settlements so that the money can be spent on necessities such as food, clothes and health care for children. It is applied in the Northern Territory, which is home to about an eighth of the country's 500,000 or so aborigines. The intervention is criticised for its paternalism and its racially discriminatory nature. Many people, including the man who designed it, Mal Brough, say it has not worked. Yet many aborigines support it, because at least in some places it has made things better.

In truth, no single measure is going to achieve very much, and certainly not quickly. Lacking strong leadership, and divided about the best practical measures to pursue, the aborigines are now mainly seeking legal rights. They did not have the vote until 1962, and were not counted in the census until 1967. Ill treatment has bred suspicion, and aborigines worry that the statute law in which their rights are enshrined can be changed relatively easily, so they want some sort of recognition in the constitution. Though this document is less a declaration of lofty ideals than a manual on how to run a federation, it is not easy to change. Any amendment requires both a national majority of voters and a majority of voters in a majority of states (ie, four out of six). That has been achieved only eight times in 44 attempts.

The present government is committed to holding a referendum on this, partly because it is wanted by the Greens and an independent member of parliament, Rob Oakeshott, who help keep Labor in office. But whether it passes or fails may not matter much. What most aborigines need is improvements in low educational achievements, low life expectancy (17 years below the national average), high mortality among children and poor job prospects. The federal government, and all the states, have committed themselves in a "national partnership agreement" to moderately ambitious targets for all these ends. Money has been provided, and admirable principles laid out for achieving them. Unfortunately, the principles, which rightly call for full aboriginal involvement, are simply incompatible with the deadlines for achieving the targets.



Land of the white, brown and yellow

For all the official goodwill that now exists, and for all the gains that indigenous people have made in the past few decades, they show few signs of making the adjustments necessary for modern life, or even managing to move easily back and forth between their own society and the one that has grown up around them. As more is learnt about aboriginal culture, it is seen to be more subtle and elaborate than most non-aborigines had ever imagined. But many indigenous people still find it hard to thrive in modern Western society, and as they struggle many have lost crucial elements of their own world. Noel Pearson, a forthright aboriginal lawyer, argues powerfully for the need to provide indigenous people with the education to navigate in modern Australia; and for aborigines to acquire a sense of responsibility for their own lives. It is hard not to agree-and not to think this will be the work of at least a generation.

Non-aborigines, too, are changing. Australians remain a proudly sporting nation, which is why, although they rarely appear on the front pages of the world's press, they still feature frequently on the back ones. In the Olympic games Australia usually ranks high in the medal tables, especially if they reflect size of population. Yet tastes evolve, in sport as in any other sphere.

Sport is life, the rest a shadow

In football, the evolution seems curiously to reflect politics. All forms of football flourish in Australia, and especially rugby and Australian rules football. New South Wales and Queensland are the rugby states; Victoria, South Australia, Tasmania, Western Australia and the Northern Territory are strongholds of Australian rules football. This divide, argues Lindsay Tanner, a minister in Mr Rudd's government, reflects a division of political culture. Melbourne, Adelaide and Hobart, the capitals of Victoria, South Australia and Tasmania, are "British" cities, where Labor made gains in the 2010 election. By contrast, Sydney, Perth and Brisbane, the capitals of New South Wales, Western Australia and Queensland, are "American" cities, where it fell back.

Tennis shows no such correlation. It is in decline. Australia used to produce plenty of tennis stars, but it is ten years since an Aussie won a grand-slam tournament. No Australian man has won his country's Open since 1976 and no woman since 1978. Cricket, too, has hit a bad patch. It had several great players four or five years ago, but few now. Perhaps, some suggest, consumerism, not sport, now defines the national character, with house prices and interest rates providing the way of keeping the score.

A growing materialism is certainly a trend identified by social analysts such as Hugh Mackay, the author of "Advance Australia...Where?", who sees Australian society becoming ever more starkly stratified by money and at the same time less egalitarian. Even mateship, a quality Mr Howard wanted recognised in the constitution, is questioned, though good-neighbourliness was surely on show in abundance during the floods that afflicted Queensland and other places earlier this year.

Mr Howard claims Australia has a unique form of egalitarianism, and David Alexander, who used to work for Mr Howard's treasurer, recently argued in *Policy* magazine that Australia has developed a model of small-government egalitarianism that uniquely combines economic liberalism and egalitarian policy structures. Citing figures from the Organisation for Economic Co-operation and Development's 2010 *Survey*, he points out that, among rich countries, Australia had the lowest government spending and the lowest taxes. At the same time it ranked below average for income inequality and close to bottom for inequality of wealth, using the standard (Gini coefficient) measures.

Two factors, he says, contribute to these "fair dos" positions. One is Australia's system for making welfare and other transfers to the less well off, which is the most progressive in the world. The second is its tax system, one of the most progressive in the OECD. The upshot is what Mr Alexander calls a platypus model. Just like its egg-laying mammal, Australia defies the categorisers by being neither small-government and inequality-tolerant, as America is, nor high-taxing and egalitarian, as the Scandinavians are. This exceptionalism, believes Mr Alexander, makes Australia a happy and harmonious society in which populism is less likely and the chances for difficult reforms and real competition are better.

His analysis is consistent with plenty of superficial observations about Australia: the relative absence of conspicuous consumption (and, it has to be said, a certain lack of style in everyday dress); the evident democracy of the beach and the park; the practice of passenger and driver sitting side by side in taxis; the general amiability of discourse; the pervasiveness of a cafe society based, for the most part, on small enterprises producing their own excellent coffee (Australia, inventor of the "flat white", has all but seen off Starbucks, which closed 61 out of its 85 Australian cafes three years ago, having found that anything it could do the Aussies were already doing better).

Australian society may have its ills, but it does seem pretty fair. Yet government spending as a share of GDP is expected to rise by mid-century, and Mr Mackay may have identified a trend. It is possible that the platypus model is passing its prime.



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The environment

A preference for green

So long as it doesn't cost too much



Relief from the big dry

AUSTRALIANS LIVE CLOSE to nature. Not on the face of things, it's true: since three-quarters of them inhabit cities of over 100,000 people, they would seem to be well insulated from their natural surroundings. Most have probably never seen a koala or a platypus outside the zoo; many won't often come across a kangaroo. But for Sydneysiders, say, the chances of meeting a venomous snake or even a deadly spider are not trivial. And above all, literally, is the weather, benign and beautiful much of the time, but often by turns scorching, soaking, dehydrating, burning, blowing, parching, cyclonic, cancer-causing and generally destructive.



That may be one reason why Australians seem especially concerned about the environment. Another, if they are informed, is their awareness that one of their finest natural wonders, the Great Barrier Reef, is under threat from pollution, overfishing and the warming of the sea; to Australians the reef is a source of pride, not to mention $5 billion a year from tourists. Indeed, many parts of the natural world are under threat in Australia. About 40 animal species, it is said, have disappeared there in the past 500 years, and hundreds more are vulnerable.

That is partly because Australia is an ancient continent with all sorts of ancient creatures. Some of the microbes that built the strange rock-like structures of Shark Bay in Western Australia, for instance, trace their genes back 1.9 billion years, though the structures themselves, called stromatolites, go back only 2,000 or 3,000 years. As an old continent, Australia has fragile soil, which the country's indigenous animals treat with respect, preferring on the whole to bounce on it rather than to stomp. The sheep, horses, goats and pigs brought by Europeans, however, have hard hooves, which compress the thin soil and cause erosion. Some of the beasts that have been introduced, such as foxes, eat the native species, or their food, and many imported plants prove invasive and overwhelm the locals.

And then there is the climate. No one knows whether it is really changing or, if so, whether man is playing a part. Australia has more than its share of climate-change sceptics, and they can point to the many droughts, cyclones and floods that have afflicted the country for centuries. Indisputably, though, these visitations do much more damage than before, because they affect more people and more man-made creations. The floods that inundated towns, ports, railways and coal mines last December and January may have cost the economy about $13 billion, it was said in January, and that was

before Cyclone Yasi swept through, adding another $800m to the bill. The government has said it will spend $5.6 billion to help repair the damage, of which $1.8 billion will come from a levy on higher-earning taxpayers.

To many Australians, these droughts and storms seem to have become more frequent and violent, and some people are inclined to blame global warming. Insurers are worried, and farmers wonder whether they may need new crops if the climate really is changing. State governments have already built long-term drought into some of their calculations, for instance, by building desalination plants to provide fresh water. Every state capital except Hobart now has at least one, at huge cost.

Yet another reason for being green is that Australia is not. When it comes to producing greenhouse gases it is almost in a class by itself: only the United Arab Emirates gives off more per person. Three-quarters of the emissions come from producing and using energy, especially electricity, which is largely generated from coal, much of it dirty, brown lignite. Coal is plentiful and therefore cheap, which helps to explain why Australia is prosperous. But many Australians feel vulnerable to climate change and think they need a carbon policy.

A sensible one would raise the price of coal-fired generation enough to make cleaner, plentiful natural gas an economic alternative. Australia will soon require more electricity, but no one wants to invest in new plants, or indeed other forms of energy, without knowing whether or how much carbon will be taxed. Both the main parties have at times accepted the need for cuts in emissions, and the current government has committed Australia to reduce its carbon pollution to 5%, maybe more, below 2000 levels by 2020. Since an increasingly resource-based economy will produce ever more emissions, even 5% would be a bigger cut than it looks, though the Greens want 25%.

The topic is fraught. On becoming prime minister in 2007, Mr Rudd, who had in opposition called climate change "the greatest moral, economic and social challenge of our time", ratified the Kyoto protocol (disdained by Mr Howard) as his first official act, and put a trading scheme for carbon emissions before parliament. In the face of falling polls and rising opposition, however, he abruptly dropped it. His successor, Ms Gillard, having vowed during the 2010 election campaign that there would be "no carbon tax under the government I lead", has now said she will introduce one. Her plan is to fix a price for carbon for three to five years, after which a trading scheme will take over. The details remain to be settled, but the idea is that transport, energy and industry will be included, though farming will not.

Whether it will ever come about is uncertain. The Liberal Party, under its previous leader, Malcolm Turnbull, supported a trading scheme, but that support cost him his job. The man who got it, Tony Abbott, had also once been a backer of such a scheme, but then decided it was a "great big tax on everything". He is now adamantly opposed, knowing that many in his party are climate-change sceptics and sensing votes from those who would be hit by a carbon tax. What he himself believes is unclear: he has declared the science to be "crap", but even so vowed last year to spend $3.2 billion over four years to secure emissions cuts. The fate of the scheme may lie with the Greens, who help keep Ms Gillard's minority government in power. In 2009 they voted against Mr Rudd's scheme, saying it was too feeble. They may find this one no better, yet to reject it would be to invite charges of irresponsibility.

Droughts and flooding rains

If carbon emissions are the new worry for Australians, water is the old one. For millennia, the country has been shaped by water, or the lack of it. Some 85% of the population live within 50km of the coast, largely because no rivers run reliably in the middle of the continent. No wonder that for the homesick poet, Dorothea Mackellar, her homeland was "a sunburnt country,/A land of sweeping plains,/Of ragged mountain ranges,/Of droughts and flooding rains." Not long before she wrote those lines, a century ago, drought had been one of the factors bringing the states to federation. Water nearly put a stop to the talks.

The issue then was the allocation of water in the Murray-Darling basin. This is the swathe from Queensland down through New South Wales and Victoria to South Australia where 65% of the country's irrigated farms produce 40% of its agricultural output, all watered by the Murray and Darling rivers or their tributaries. The rivers satisfy the thirst not just of the 10% of the population who live in this basin, but also of many town-dwellers and farmers outside it; the city of Adelaide, for example, depends on the Murray for about 40% of its water. But the slow-moving Darling is often dry, and sometimes even the perkier Murray does not reach the sea. The ensuing influx of salt water at its mouth has troubled South Australians ever since 1887.



Down under down under

Now the main worry is the health of the river. For the past two years water has flowed in plenty; torrents have surged down riverbeds that had been dry for years, flushing out accumulations of salt and detritus. Birds have returned to nesting places unvisited for years; plants and trees have blossomed and flourished. But the ten years of drought before this efflorescence followed a huge expansion of irrigation in the 1970s and 1980s that reduced the flow of the Murray to a trickle. South Australia, with the least rainfall and at the end of the line, had been hit hardest, and began trading water allocations in the 1980s. The practice caught on elsewhere, helping the farmers of the basin to get through the recent long drought using far less water than before yet with no reduction in output. Their example is held up to would-be water traders all over the world.

The trouble is that, though the farmers got through the drought all right, the environment did not, certainly not in the southern part of the basin where so little rain fell. The flow of the river, made constant by careful management to please consumers, did not suit the handsome river red gum trees along its banks, which thrive on drought and flood. And despite dredging, salinity was becoming a problem. Many feared it would soon become impossible to hold back the sea.

In 2007, however, the Howard government passed an act that allowed it to muscle in on water management in the Murray-Darling basin, constitutionally a state responsibility. A set of proposals is now in the making that would reduce the extraction of water available for consumers by up to a third. As with the carbon scheme, the outcome is in doubt. Water users along the line of the river are protesting furiously. But the fuss is probably overdone. The lesson of Australia's water management is that there is enough water to go round. No one likes paying for it but, in places of shortest supply, where they pay most, people use it carefully. In Victoria much irrigation is inefficient. Parts of New South Wales could also adopt less wasteful methods. But arid Adelaide recycles over 30% of its water, and to its south, the vineyards of McLaren Vale are irrigated with the city's waste water. Australia has produced some of its biggest agricultural crops in times of greatest drought. It should be capable of sharing the water so that human beings, animals and plants all have enough.

If water is mainly a problem for people in the country, it does not mean that city-dwellers are unconcerned about their surroundings. People in the main cities now have enough water, thanks to desalination, though they still have to pay for it. And they have other concerns. The poor state of public transport and infrastructure generally played a large part in the ejection of Labor governments in New South Wales in March and in Victoria last November. The price of housing is another political issue, reflecting the pressure of rising numbers of people in the state capitals, where migrants make up about a third of the population. Increasingly, though, Australians want new buildings to be green.

Melbourne has led the way. Its City Council House 2, with windows that open at night to take in air that cools the interior by day, was the first public building in Australia to get a six-star green rating. Like other buildings, it has been designed as part of an effort to create a good street, which it is hoped will make a good city. In Melbourne that also means good lanes, arcades and frontages, many of which were built in the 19th century and had fallen into decrepitude. They have now been restored, helping to lure people back to the centre. The city's planners believe Melbourne's population will more than double from its current 4m to 8m by 2050. Rob Adams, the director of city design, thinks this could be accommodated using only 71/2% of the land within the existing metropolitan area. But it would mean, if not a city of high-rise living, then buildings of several storeys.

Admiral Arthur Phillip, the man who brought the First Fleet into Sydney Harbour in 1788, ended his days tumbling out of an upstairs window in England. It would never have happened if he had stayed in Australia, for Australia is still the land of the bungalow. That's the way people like to live, and why they say Sydney, Australia's most crowded city, is already full up. Yet its population density is lower than that of Los Angeles. If they really mean to be green, Aussies will have to start going upstairs.

Foreign policy

Home alone

As China rises, must Australia tremble?



BACK IN THE days of the tyranny of distance, the primal terror of Australians was the fear of abandonment. During the country's first few decades it looked for its security to Britain, a friendly but far-off power. After Singapore fell to the Japanese in 1942, Britain abandoned its former colony. Fortunately, America took its place and has been guaranteeing Australia's security ever since. Even so, Australia is once again feeling nervous about finding itself alone, prompted by three changes. The first is the growing economic power of China, followed closely by its growing political and military power. The second is that America's role as the single pole of a unipolar world is inevitably coming to an end. And third, Australia's new pattern of trade means that for the first time its main commercial partner, China, is not a strategic ally. None of this involves an immediate threat to Australians, but it makes life more complicated.

Not yet on their doorstep. For years Australia was neurotically concerned about Indonesia, a huge neighbour that has sometimes looked violent or unstable but now seems benign, democratic and rather successful. Smaller neighbours, however, are more worrying. In Papua New Guinea, for example, administered by Australia from 1906 to 1973, many of the social indicators are heading down and it is becoming increasingly violent. Some of the tiny island states that speckle the map of the Pacific also make uncomfortable neighbours. Fiji has coups, the Solomons has scandals, and almost all have struggling economies. Since poverty and size make them potentially easy to influence, they need care and attention.

The wider region is the larger worry, partly because it encompasses so many poor, autocratic or unstable countries, partly because Australia does not fit in very comfortably. It has never really tried to pass itself off as an Asian country, nor been accepted as such. Instead, it has made itself seem less out of place by joining, and sometimes helping to create, various regional groups. Many of these are fine as far as they go, but some accept too many nasty members (such as Myanmar) to allow useful agreement, and even the more discriminating clubs have their tensions. Mr Rudd, as prime minister, worked

hard to promote the creation of an Asia-Pacific Community in which everything from security, trade and terrorism to energy, disease and natural disasters would be discussed, filling a large gap in the other arrangements. It may prove useful if it comes off.

The political task, though, has to some extent been taken over by the G20, in whose creation Mr Rudd played a role, helping to ensure that it was not confined to just 14 countries. This is the natural forum for a middle-ranking power, such as Australia, with global as well as regional interests. Australia, remember, has sent its troops to fight in wars from South Africa to Vietnam. Nowadays they go to Iraq and Afghanistan. It is clearly right that it should have a place among democracies of a certain economic weight, such as Canada, Mexico, South Korea and Turkey.



Where Oz still counts

In truth, Australia is a bigger power than it sometimes believes. Out of the world's 193 sovereign states, it ranks sixth in land area, 13th in economic production, 14th in defence spending and 50th in population. It will be overtaken in some of these categories because its population will stay relatively small, but for the time being it still carries some weight.

That is already apparent in its foreign-aid budget, which the Howard government doubled and the current government says it will double again, bringing it to 0.5% of GDP by 2015. And no longer will most of it be spent regionally; in future it will be a global programme. But America may also make increased demands on Australia that will call for higher spending on defence.

The reason, of course, will be China, which has become a pushy maritime power. Its actions, including the commissioning this year of its first aircraft-carrier, make that plain. Less clear is whether it will want to challenge the United States at some point for maritime primacy in and around the Pacific. Some pessimists see that as inevitable for a world power in the making. More optimistic analysts think China will stay preoccupied with economic development at home for at least two or three decades. Both groups agree, however, that a problem, if mishandled, could escalate, just as it did in 1995-96, when China was "testing" missiles and America sailed a carrier battle-group through the Taiwan Strait.



Australia, for its part, has to make guesses about America's future behaviour as well as China's. Hugh White, professor of strategic studies at Australian National University, believes that, faced with China's growing power, America can either withdraw from Asia, share power with China or compete for primacy. He worries about America's resoluteness in a long competition with China, already sees a "drift to antagonism" and fears it could lead to a war that might turn nuclear. For Australia, he thinks, the best outcome would be for America to relinquish primacy and share power with China and other countries in a "concert of Asia".

Mr White's thesis, put forward in a recent issue of *Quarterly Essay*, has caused some debate in Australia, but few people there see the United States wanting to carve up Asia with China. Rather, they say, the signs are that it will simply re-engage and compete. The hope is that China's main military aim is to have control of the waters round its coasts, and thus to keep other countries away from its maritime borders. So long as that does not involve directly challenging America for primacy, both countries can continue to compete and co-operate.



Remember the Dardanelles

America is popular in Australia, and vice versa. When Ms Gillard delivered a glutinous speech to a joint session of Congress in March, she got six standing ovations. No big changes seem likely, but Australia is rich these days and America is feeling poor. It may be asking the Aussies for help before long, perhaps even suggesting it should place some forces alongside America's in somewhere like Guam, from which Uncle Sam can show who's boss in the Pacific. Australia might not welcome this: it wants to be friends with both big powers.

The Aussies' attitude to China remains tentative. Most Australians see relations as cordial-Ms Gillard made a successful visit to Beijing last month-but a poll for the Lowy Institute last month suggested almost half believe China will become a military threat within 20 years. Many worry about the extent of Chinese investment; although any proposal above a certain size is automatically reviewed by the authorities, the Lowy poll showed that 57% thought the government allowed too much of it. But Colin Barnett, the premier of Western Australia, where all resources seem magnetically drawn to China, is unconcerned. He says he welcomed 85 delegations from China last year and spends more time there than he does in Canberra.

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Politics

Politician, heal thyself

The current lot couldn't pull the skin off a rice pudding



THE REFORMERS WHO laid the basis of Australia's present success had the intelligence and courage to take action when it was needed. Will the same be said of the current generation of politicians? It is by no means certain.

That Australia is successful is not in doubt. It has a prospering economy, a harmonious and egalitarian society, an ability to accommodate immigrants, an excellent civil service, an independent central bank, a good balance of personal freedom and limited government, sensible pension arrangements, sporting prowess and a fine cuisine. There is no underclass, no permanently depressed area, no significant group of citizens who challenge the values of its society. Its cities do have pockets of despair, but neither slums nor ghettos. It is a flourishing democracy, one of the oldest in the world, with a long history of pioneering reform: when America got round to introducing the secret vote in 1872 it was known as the Australian ballot, because the Aussies had had it since the 1850s.

With so much already in the bag, today's politicians have an unusual opportunity to make life even better for their compatriots, born and unborn. They can attend to the blemishes, arrest some worrying trends, try to put right the limited number of serious problems and prepare the country for the future. Perhaps they should start by looking at themselves.

The first striking feature of modern Australian politics is its inconstancy. The political parties cast off leaders the way Dame Edna Everage casts off frocks. Between 1989 and 1991 the Liberals had three leaders and Labor two. And though Mr Howard was in power for over ten years, in 1994-95 the Liberals again had three leaders, and another three in 2007-09. And so, in 2004-07, did Labor. Policies too can be changed, just as often and just as casually. Both the main parties have been for and against an emissions-trading system, the issue that most divides them today. Even the Greens, who say they want one, have voted against the only one they have been offered.

The parties are also indolent (the tired Howard government achieved little after 2003 other than a misjudged labour reform) or incompetent. Mr Rudd, clever and articulate (even in Chinese), got his country through the biggest financial crisis of modern times (with a little help from the central bank), presided over an expanding economy-and contrived to lose his job. His party then nearly managed to lose the next election, and is now in hock to independents and Greens. Admittedly, both the party and its leader had achieved little. They were shamefully routed by the mining companies on tax, and they mishandled their carbon scheme. The decision to set up a national broadband network was undeniably brave, but the proposed scheme is hugely expensive, at $36 billion-43 billion, of which some $27 billion would be public money, and threatens not to meet its target rate of return.

Could the fault lie with the system rather than the politicians? No, the system for the most part works fine. The lower house is elected using a preferential ballot (the alternative vote), which arouses no serious criticism and has provided stable governments for over 90 years. The Senate, elected by proportional representation, is seldom controlled by the governing party (since 1968 only Mr Fraser and Mr Howard have had that luxury for even part of their terms). But that has not prevented reforming governments from passing legislation. Life is indeed complicated for Ms Gillard's government, since Labor lacks a majority in both chambers, but that should not entail paralysis.

Winning the week, losing the era

The worst feature of the system is its three-year parliamentary term, which means in practice a 21/2-year electoral cycle. So campaigning never stops and there is only a brief period in which a government can hope to recover after doing something necessary but unpopular. This reinforces politicians' natural tendency towards short-termism. Some people see a weekly cycle in politics, driven by the remorseless polling, endlessly analysed in the press and on television with facile answers to the facile question, "Who won the week?". Some see a daily cycle, in which every day produces a winner and loser. Some see a non-stop Punch-and-Judy show promoted by talkback radio, where the chat is both blunt and sharp, even by Australian standards, and the prime minister is quite likely to be called Ju-liar.



In any event, the level of political discourse is not high. That is partly the fault of the media, but also the fault of the politicians, some of whom at least are happy to join battle, mouthing jibes and slogans (Let's move Australia forward, Stand up for Australia, The real Julia, Stop the boats, End the waste), seldom bothering to explain a policy or answer a question without short-term political gain being uppermost in their minds.

The knockabout is also played out in parliament, notably during question-time, held almost every day the house is in session. One picture of this is worth far more than the usual thousand words: the leader of the opposition can often be seen facing his own side of the chamber with his back to the prime minister, even while she is speaking. Once again, the fault lies with the politicians, not with the system.

From this unpromising ground, little thoughtful activity emerges. Australia has never been a highly ideological country. Its political philosophy is utilitarian, reflecting the value put upon outcomes. The unions used to exercise a strong influence over the Labor Party and still play a disproportionate role in the public sector, where 46% of workers are unionised, compared with only 14% in the private sector. But the trade unionists' wings have largely been clipped, and socialism *per se* seems to have limited appeal. The Labor Party lives in fear of losing support to the Greens, whose voters tend to be young and pragmatic.

Forgotten people, forgotten principles

As for conservatism, in Australia its traditional principles were neither classically liberal nor especially sympathetic to business, certainly not big business. Instead, in the words of a former prime minister, Robert Menzies, in 1942, it stood for the "forgotten people" of the middle class, not rich enough to be influential, not organised enough to make their numbers felt and too often taken for granted by politicians. Under Mr Howard, this bourgeois (but not Poujadist) conservatism became something closer to Thatcherism, but Mr Abbott, the current Liberal leader, shares none of Margaret Thatcher's belief in the market. His party seems to have no philosophical principles at all.

That is not to say that Liberals have no principles. Mr Turnbull lost his crown because he refused to drop his support for Mr Rudd's climate-change policy. Like Joe Hockey, one of the two men who challenged him for the leadership, he is socially liberal and undogmatic. By contrast the winner, Mr Abbott, is socially conservative but above all populist, saying no to almost everything proposed by his opponents and vowing to repeal almost everything they want to do. If it came about, this would be a reversal of practice. A feature of the reform era was that, for the most part, one party did not undo its predecessor's changes.



Steady as a stromatolite

Each of the parties has some admirable and capable figures. Besides Mr Turnbull, the Liberals have good premiers in Victoria and Western Australia, and some younger talent too. Labor has the impressive Penny Wong, a junior finance minister, and Greg Combet, in charge of the climate-change portfolio, as well as Anna Bligh, whose reputation as premier of Queensland has been transformed by her skilful and empathetic handling of the floods. But the party leaders dominate the scene, partly because the media concentrate on them, partly because the parties themselves direct their attacks at their opponents' standard-bearer. In the 2010 election, for example, Labor made Mr Abbott its main target, which, since he acquitted himself rather well under fire, did him nothing but good.

Perhaps both opponents and the press should spend more time looking beyond the leaders. They would find that many, if not most, of Australia's politicians, like those in other countries, now emerge from the murk of their party apparatus rather than from the wider world. When they rise to the top, they surround themselves with henchmen, read polling results and tea-leaves and subordinate policy to the art of winning elections. If they happen to gain power, they do not seem to know what to do with it. If they take action, it is because they want to be seen to be doing something.

The net result of all this is a lack of seriousness in Australia's politics. The show (Lindsay Tanner, the Labor ex-minister, calls it a sideshow) is a spectacle. It can be fierce: not for nothing does the word feral so frequently crop up. But so do other giveaway words: sustainable, for example, which is the adjective of choice in immigration, water and budget policies. Good might serve as well.

In politics Australia now often seems to wait to take its cue from abroad. In social matters it tends to follow Europe, in international affairs the United States. Nowhere is that clearer than in carbon policy. Since America is divided, Australia is divided. If America had a carbon price, Australia would have a carbon price. The United States, however, cannot lead the way on the decisions that are most important to Australia today. They are to restore its growth in productivity, to turn at least some of its universities into world leaders and to provide it with the flexibility and resilience to enable it to cope with the unexpected-a collapse in its terms of trade, a bust-up in Indonesia, civil war in China, an isolationist president in America or whatever else may be thrown at it. If the current generation of politicians can achieve that, Australia's success will last as long as a stromatolite.

Index | A special report on Australia

Sources and acknowledgments

Among the many people the author would like to thank for their help are Chris Cheatley, Kath Cummins, Gervase Green, James O'Toole and Don Stammer

Offer to readers

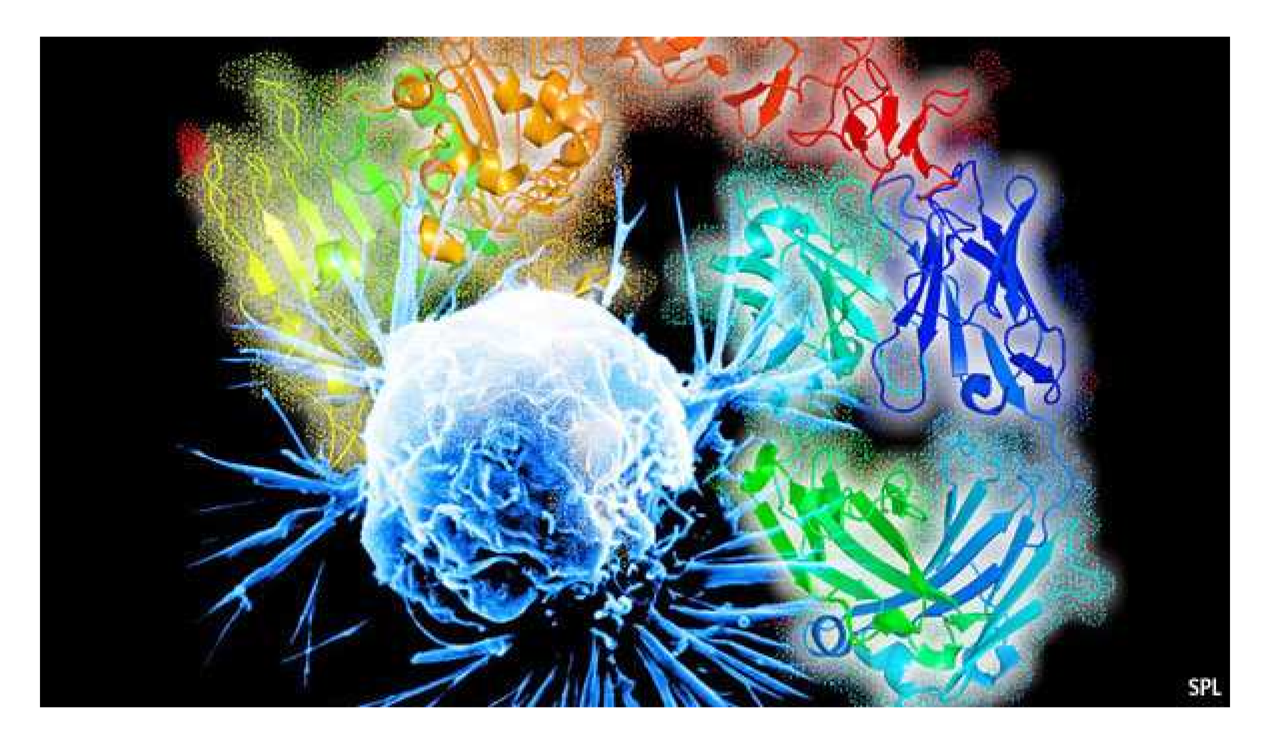
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Drug companies in America

The costly war on cancer

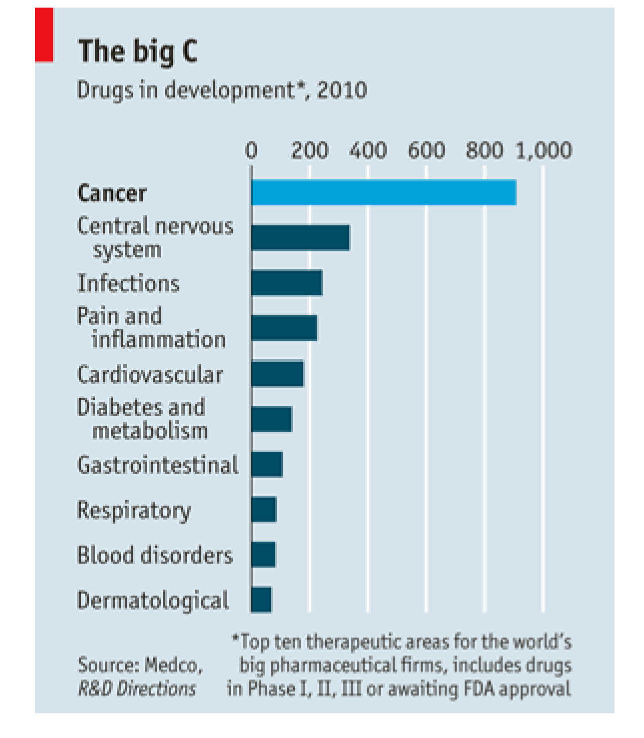
New cancer drugs are technically impressive. But must they cost so much?



CANCER is not one disease. It is many. Yet oncologists have long used the same blunt weapons to fight different types of cancer: cut the tumour out, zap it with radiation or blast it with chemotherapy that kills good cells as well as bad ones.

New cancer drugs are changing this. Scientists are now attacking specific mutations that drive specific forms of cancer. A breakthrough came more than a decade ago when Genentech, a Californian biotech firm, launched a drug that attacks breast-cancer cells with too much of a certain protein, HER2. In 2001 Novartis, a Swiss drugmaker, won approval for Gleevec, which treats chronic myeloid leukaemia by attacking another abnormal protein. Other drugs take different tacks. Avastin, introduced in America in 2004 by Genentech, starves tumours by striking the blood vessels that feed them. (Roche, another Swiss drug giant, bought Genentech and its busy cancer pipeline in 2009.)

These new drugs sell well. Last year Gleevec grossed $4.3 billion. Roche's Herceptin (the HER2 drug) and Avastin did even better: $6 billion and $7.4 billion respectively. Cancer drugs could rescue big drugmakers from a tricky situation: more than $50 billion-worth of wares will lose patent protection in the next three years.



This month Pfizer, an American company, announced that America's Food and Drug Administration (FDA) would speed up its review of a cancer drug called crizotinib. Roche submitted an FDA application for a new medicine, vemurafenib. The industry is pouring money into clinical trials for cancer drugs (see chart).

This is part of a shift in how big drug firms do business. For years they have relied on blockbusters that treat many people. Now they are investing in more personalised medicine: biotech drugs that treat small groups of patients more effectively.

Last year the FDA approved Provenge, developed by Dendreon of Seattle to train the immune system to fight prostate cancer. In March the FDA approved Yervoy, Bristol-Myers Squibb's drug to treat melanoma. And there are promising drugs in the pipeline. Pfizer's crizotinib attacks a protein encoded by a gene found in fewer than 5% of patients with non-small-cell lung cancer. Roche's vemurafenib attacks advanced melanoma by blocking the mutated form of a gene, B-RAF. Both Pfizer and Roche are developing tests to help doctors identify suitable patients for their drugs.

The snag, from society's point of view, is that all these drugs are horribly expensive. Last year biotech drugs accounted for 70% of the increase in pharmaceutical costs in America, according to Medco, a drug-plan manager. This trend will continue as drug firms develop new ways to treat, for example, multiple sclerosis and rheumatoid arthritis.

Cancer plays a huge role in raising costs. America's National Institutes of Health predict that spending on all cancer treatment will rise from $125 billion last year to at least $158 billion in 2020. If drugs become pricier, as seems likely, that bill could rise to $207 billion.

Not all these new drugs work. In December the FDA said that Avastin's side effects outweighed its meagre impact on breast cancer. (Genentech will argue otherwise in a hearing in June.) More generally, some people reckon that new cancer drugs offer small benefits at an exorbitant price. Provenge costs $93,000 for a course of treatment and extends life by an average of four months. Yervoy costs $120,000 for three-and-a-half months. Some patients live much longer, which fuels demand for the drugs. But others spend a lot and get little. Otis Brawley, chief medical officer for the American Cancer Society, calls the new treatments "the next frontier", but adds: "We are not buying a lot of life prolongation with these drugs."

Britain's National Institute for Health and Clinical Excellence, a public body that judges whether medicine is cost-effective (ie, what Sarah Palin would call a "death panel"), has rejected several new cancer drugs. That so upset patients and tabloid editors that the British government back-tracked and created a separate fund to pay for expensive oncology drugs. The government now plans to introduce "value-based pricing" by 2014, with a system to price drugs not just for their efficacy but also for their "wider societal benefits".

America does things differently. The government health programme for the elderly is barred from considering price at all when it decides whether to cover injected drugs under something called Medicare Part B. Under Part B's loopy reimbursement system, the more a drug costs, the more the oncologist who prescribes it is paid. Patients have little reason to demand cheaper drugs. Part B usually covers 80% of a drug's price, and most patients have additional insurance to

cover the remainder. Americans hate to be denied any kind of treatment: a delay in Provenge's approval prompted furious talk of rationing.

Private insurers have started to make patients pay a larger share of their drug bills. But drug companies often help to pay the patient's share, which stops the public from getting angry about soaring costs. Even when prices are high, demand for cancer drugs is largely inelastic, says Tomas Philipson of the University of Chicago. Dying patients understandably place a high value on life, so they are willing to pay more for treatment. All this means that firms can charge steep prices. "At some point it's just corporate chutzpah," says Peter Bach of the Memorial Sloan-Kettering Cancer Centre in New York. "There's no check in the system."

America's propensity to pay has one important benefit: it encourages investment in research. Drugmakers recoup their investments in America; other countries take a free ride. New research may yield better treatments. And today's cancer drugs may prove more effective when tested in combination with others, predicts Todd Golub, director of the cancer programme at the Broad Institute, a genetics research laboratory.

Who will reform this unsustainable system? Private insurers may haggle harder. Patients may grow restive-a recent study found that 10% of cancer patients (not covered by Part B) fail to take prescribed drugs, largely because of the cost. Barack Obama's reforms are supposed to cajole all health-care providers into becoming more cost-effective, but that will require political bravery to enforce, and few politicians are brave enough to do anything that sounds like rationing grandma's cancer drugs. Congress recently authorised more than $1 billion to compare the efficacy of drugs-while explicitly ignoring their cost.

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Academic publishing

Of goats and headaches

One of the best media businesses is also one of the most resented



Something to chew on

HOW much would you pay for an annual subscription to *Small Ruminant Research*, *Queueing Systems* or *Headache*? University librarians pay rather a lot. In Britain, 65% of the money spent on content in academic libraries goes on journals, up from a little more than half ten years ago. With budgets tight, librarians are trying to resist price increases. But Derk Haank, the chief executive of Springer, a big publisher, is firm: "We have to make a living as well."

And what a living it is. Academic journals generally get their articles for nothing and may pay little to editors and peer reviewers. They sell to the very universities that provide that cheap labour. As other media falter, academic publishers have soared. Elsevier, the biggest publisher of journals with almost 2,000 titles, cruised through the recession. Last year it made pound724m ($1.1 billion) on revenues of pound2 billion-an operating-profit margin of 36%.

Academic publishers have jumped deftly from paper to the internet. For more than a decade the dominant model has been the "big deal". Publishers sell access to large bundles of electronic journals for a price based on what colleges used to pay for paper ones. Prices of big deals rise at about double the rate of inflation.

This model has provided an unprecedented wealth of material to researchers and fat profits to publishers. But fiscal crises, particularly in America, are straining big deals. State funding per university student in Arizona has fallen by roughly half since 2007-08. Libraries have taken a hit.

A library with a bundled subscription deal cannot make ends meet by dropping a few journals, as it could in the old days. Instead it must take the drastic step of leaving the all-you-can-eat buffet for the a la carte restaurant. Some universities have dropped big deals in favour of subscriptions to a few key journals, topped up by pay-per-view downloads of individual articles. Academics have not complained, they say. British universities are threatening to do the same en masse if subscription prices are not cut. Are they serious?

Certainly, some journals are more valuable than others. Ted Bergstrom, an economist at the University of California, Santa Barbara, has a nifty way of quantifying this. He divides the annual subscription price of a journal by the number of times its articles are cited in other journals. Results vary a lot. Influential journals such as the *Lancet* cost a few pennies per citation. Others cost hundreds of dollars.

If many universities drop big deals it will be calamitous for the publishers. They could raise the prices of individual journals to make a la carte buying less attractive. But that would stimulate a private trade in e-mailed articles. Claudio Aspesi of Bernstein Research points out that academic authors tend not to care much about copyright protection. Their main interest is in being read and cited.

Many customers resent high prices and have the means to bypass them. The music industry provides a salutary lesson in the dangers of building a business around charging too much for too-large bundles of content (in its case, CD albums).

Yet academic publishers do not have the rabbit-in-the-headlights look that music executives did a few years ago. They have moved quickly to cut or freeze subscription prices for the most troubled universities. They have minimised the threat from open-access journals, which seemed considerable a few years ago, in part by buying some of the best ones. And they are pushing into emerging markets, where universities and government research budgets are swelling.

So far, says Youngsuk Chi of Elsevier, publishers have behaved a bit like hunter-gatherers of research. They are trying to become information providers. That means investing in search and data-management tools to make sure relevant articles find their way to researchers. Earlier this year Elsevier opened some of its article databases to software developers, who have begun to build apps on top of their content. If publishers can hook academics on such innovations, and drive them to articles in relatively obscure journals, dropping big deals will seem a lot more painful.

Academics are heroic complainers and not always well disposed to profit-maximising businesses. So the gripes are likely to continue. The best that the publishers can hope for is that they escape the fate of the music business and come to be viewed rather like pay-television companies. Customers complain about their cable bills, too. But they keep paying them.

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Nuclear power in Germany

No one listens to Jurgen Grossmann

The lone stand of a power boss against his country's nuclear panic

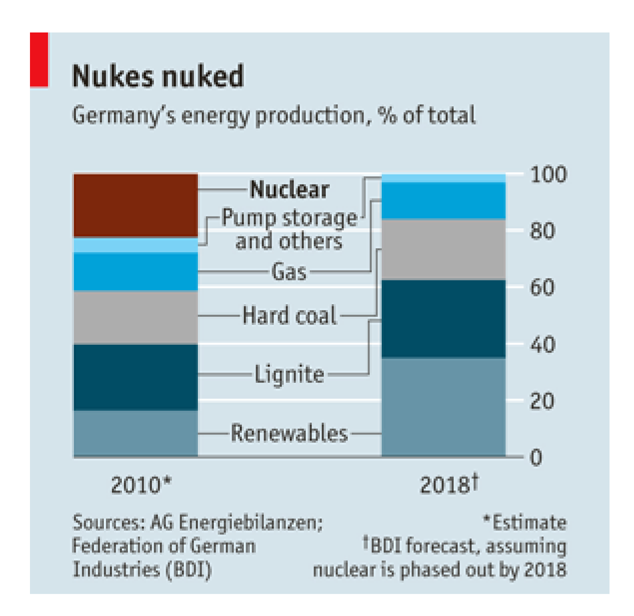


GERMAN tree-huggers have always hated nuclear power. The accident at an earthquake-stricken Japanese nuclear plant in March added to Germany's nukeophobia. The government ordered a three-month moratorium for the nation's seven oldest nuclear plants while two commissions, one on safety, the other on "ethics", reviewed the nation's nuclear future.

One man dared to challenge the legal basis of the moratorium. He was Jurgen Grossmann, the boss of RWE, a big German power company that generates a quarter of its output from nuclear plants. He is a doughty warrior for a non-alarmist energy policy and, at 2.03m tall, a highly visible one. But his cause seems doomed.

He argues that until other forms of low-carbon energy improve, Germany will need nuclear power to meet its greenhouse-gas targets. The country aims to get 35% of its energy from renewable sources by 2020 and 80% by 2050. That could be hard. Germany has little sunshine for solar power. Wind power is intermittent. Greens and nimbys detest both large power stations and power lines, which some imagine will give them cancer.

Last September four big energy producers in Germany-E.ON, RWE, EnBW and Vattenfall-negotiated a deal to prolong the lives of their 17 nuclear plants by an average of 14 years. There was still hope then that the nuclear industry could win over the German people, though the popular consensus since 2001 has been for an orderly abandonment of nuclear power.



Nuclear plants cost a fortune to build, but not much to run. So despite a steep tax on nuclear fuel, they are a cheap and reliable source of power that emits almost no greenhouse gases. But probably not for much longer. On May 17th Germany's Reactor Safety Commission delivered its verdict: generally positive, but it noted that none of Germany's 17 nuclear reactors could cope with al-Qaeda deliberately crashing a commercial jet into the roof. The ethics commission will report at the end of the month, and the government will pass a new law, possibly requiring a complete shutdown within ten years (see chart).

Mr Grossmann is not opposed to alternative energy. In 2008, five months into his job as chief executive, he set up a subsidiary called RWE Innogy that has built wind farms in Britain, the Netherlands, Spain and Germany. It also has partnerships developing carbon capture and storage, an unproven technology for making fossil fuels cleaner. Its latest piece of green-tech is a plant in the American state of Georgia that makes green wood pellets for burning in coal-fired power stations.

Still, renewables make up only 4% of RWE's energy mix. The rest comes from coal- and gas-fired plants, though the new ones are being adapted to take biomass too. It is less dependent on nuclear than E.ON, Germany's biggest power company, (which has six nuclear plants in Germany), and EnBW (which has four). "Only 10% of RWE's value is nuclear," says Mr Grossmann-though that figure is obviously deflated by politics.

The political winds favour small energy firms. The European Commission has forced big German firms to sell parts of the power grid that they own. RWE has spun its network into a subsidiary.

Mr Grossmann has the assurance of a self-made billionaire. In 1993 he took over a near-bankrupt steelworks in Lower Saxony for DM2 ($1.21). He toiled at the furnaces himself to rally workers. Within a couple of years the firm was profitable. He still owns it. Mr Grossmann's pithiness ruffles feathers. In December he was named "dinosaur of the year" by a green group. "Man is a mayfly compared with the dinosaur," he retorted.

His mandate at RWE expires next year. Possible successors include Rolf Martin Schmitz, RWE's chief operating officer, and Leonhard Birnbaum, the firm's chief strategist. Mr Grossmann's nuclear legacy may endure longest outside Germany. On May 17th RWE announced that it was buying 30% of a nuclear reactor in the Netherlands. It is also part of a joint venture with E.ON to build two spanking new nuclear plants in Britain.

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Sony and its boss

Stringer theory

Critics call Howard Stringer a failure. They are wrong

THE share price has fallen by a quarter this year. The company has lost money for three years in a row. Hackers have breached its online service, exposing mountains of confidential customer data to potential mischief. Sony's boss, Sir Howard Stringer, looks a like total failure.

But looks can be deceptive. Sir Howard took the reins in 2005 and plans to retire soon. During his time at the top, he has overhauled the Japanese consumer-electronics giant. He has outsourced operations, shifted production overseas, sold business units and developed new ones. The company still lags behind big rivals such as Apple and Samsung, but it is far healthier than it was six years ago.

Sir Howard has suffered a string of bad luck. Before an earthquake walloped ten of Sony's Japanese factories, the firm was expected to report a net profit of Â¥70 billion ($817m) for the year to March 31st 2011. But the quake will have cost it some Â¥17 billion that year and Â¥150 billion the next. The cyberattacks will also cost billions, says Sony. Its network was hacked again this week, affecting users in Greece, Canada and elsewhere. Analysts guess that the breaches could cost Sony Â¥100 billion.

Adding to the misery, Sony was forced to revalue the tax breaks (accumulated from previous losses) that it expects to deduct from future tax bills. The company reduced these "deferred-tax assets" by a hefty Â¥362 billion. This does not affect its operating profit or cashflow, but it forced Sony on May 26th to report a net loss for 2010 of Â¥259 billion.

In 2005 Sir Howard inherited a company that was bloated and badly run and had missed the technology shift to flat-panel televisions. A Welshman with an American passport, he was hired on the assumption that a foreigner can make painful changes that a Japanese boss might feel culturally obliged to duck. (Carlos Ghosn, a French-Brazilian, has done something similar at Nissan, a Japanese carmaker.)

Sir Howard spent the first few years shunting aside deadwood managers who sabotaged his reforms. He promoted talented young executives, such as Kazuo Hirai, who at the age of 50 heads Sony's gaming and network services, and is tipped as Sir Howard's successor.

Sony has been buffeted by the financial crisis, the strong yen and the earthquake, none of which was Sir Howard's fault. He bears responsibility for the data breach, because he is the boss, but there is scant evidence that Sony's defences were worse than the rest of the industry's.

Sir Howard's changes have begun to pay off. At the end of last year, Sony's sales of televisions grew by 44% and those of its computers rose by 28%. Its gaming and mobile-phone activities turned profitable in 2010. The television business still suffers losses, but is on a firmer footing. Sir Howard shut superfluous factories-including one in Ichinomiya, which made the Trinitron televisions that were once a symbol of Sony's technical brilliance. Today more than half of Sony's TVs are assembled by outsourcers, up from a mere 20% in 2009.

In recent months Sony has unveiled new smartphones, along with a clever strategy to persuade developers to produce video games for them. The firm has designed innovative tablet computers that could compete with Apple's iPad. Sony's Vaio notebook computers offer an alternative to Apple's laptops. The hardware is important because it is a gateway to online services, where Sony's future is thought to lie. That is one reason why the cyberattacks hurt the company so much.

Many of the firm's employees are conservative foot-draggers, but Sir Howard has shaken them up. Perhaps he has made Sony safe once more for a Japanese boss.

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Works councils in France

Carry on camping

French workers' perks are under scrutiny



IN MOST of Europe works councils deal with such dull matters as working hours and safety. In France they are ministries of fun. *Comites d'entreprise* together spend euro11 billion ($15.5 billion) a year on treats for workers such as half-price beach and ski trips, camping holidays for families and Christmas hampers.

At Electricite de France (EDF), a big utility, the *comite d'entreprise* is so big and rich, with thousands of employees, that it has its own *comite d'entreprise*. It is believed to have more press officers than EDF itself. Each year it has about euro500m to spend. Even that is not enough; in 2009-10 union officials went over their budget, leaving a cash deficit of euro130m. The *comites d'entreprise* of Air France, France Telecom and Euro Disney have also overspent wildly in recent years, triggering investigations.

"When you have all that money, it can go to your head," confides the head of one council. And if the company makes up the deficit, as many do, what incentive is there to scrimp, he asks? Luxurious facilities are a particular weakness. Air France's *comite d'entreprise*, which found itself in financial difficulties last year, is now under pressure to sell Domaine de Lassy, a leisure centre outside Paris which was formerly a stud farm owned by the Aga Khan.

Even by French standards, EDF's *comite d'entreprise* is exceptional. In 2009 it became the first works council to buy a listed company, Andre Trigano, a lossmaking camping firm. The cash it spent-around euro60m-would have covered much of its recent loss.

Scandals at some of the biggest *comites d'entreprise* have given all a bad name. The former head of Air France's works council has even called for reform. But employees need not fear. In a country where workers routinely take bosses hostage, no one wants to meddle with their right to go camping.

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Airport privatisation

Runways required

Private investors can make airports bigger, but not big enough



Down from heaven and into arrival hell

WITH their crowds, delays and "retail opportunities", airports impart feelings that range from irritation to despair. The experience is likely to get worse. Over the next 20 years the number of jets circling the planet is set to double, but investment in airports probably won't. In Europe twice as many passengers are expected to squeeze through 41% more capacity.

One reason why airports are grim is that many are state-owned. Of the world's 30 busiest ones, 19 are state-owned and most of the rest are public-private partnerships. In the past they were "administered rather than managed" to serve state-owned airlines, says Andreas Schimm of Airports Council International (ACI), an umbrella body. Governments now try to run airports on commercial lines, but few do it well. Privatisation could help.

Incheon and Cheongju airports in South Korea are likely to seek private investors soon. So are Munich, Moscow's two smaller airports, France's regional airports and a host of others. Even in America, where complicated federal rules discourage either selling or buying airports, a scheme to privatise Chicago Midway and four other airports is picking up speed again. In Brazil, however, an effort to woo private cash to spruce up shabby airports before the football World Cup is stalling.

An airport ought to be a sound investment. BAA, which runs Britain's biggest airports, has coined it. Eyebrows were raised when Macquarie, an Australian bank, bought Sydney airport in 2002. But it quickly boosted revenues and profits. The "release value" of taking public assets private can be enormous, says Peter Morris of Ascend, a consultancy.

Investors could now be more wary, however. Empty public coffers might encourage governments to demand too high a price. The liberalisation of air travel has increased competition between big hubs, especially in Europe and the Gulf. And the soaring growth of low-cost airlines has added to the pressure. Budget carriers are far more flexible and ruthless than their full-fare competitors. If business sags or landing fees rise, they will drop an airport as surely as a baggage-handler will drop a bag marked "fragile".

Privatisation can improve efficiency and service quality. But passengers may face other torments. Airports earn just 18% of their revenues from airlines, according to ACI. The rest comes from passenger fees, parking charges, rent from retailers and so on. Rather than squeezing airlines, which can fly away, it is more tempting to go after passengers, who are hemmed in by metal detectors and armed police.

Airlines grouch that landing fees always rise at privatised airports. Giovanni Bisignani, the boss of IATA, a group that represents airlines, argues that the best airports are those with good managers and tough regulators, and that ownership matters less. But regulations will surely have to weaken to attract private money.

By some estimates $1 trillion of new investment will be needed over the next two decades to match airport capacity to flight plans. Yet there are barely a dozen airport groups that might be tempted to bid for the terminals and runways on the

block. They are unlikely to raise enough cash to keep pace with the rising volume of passengers. The queues will only grow longer.

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Corporate crime

Give a little whistle

The SEC offers a huge carrot to encourage whistle-blowers

"TOO many people remain silent in the face of fraud," says Mary Schapiro, the chairman of America's Securities & Exchange Commission (SEC). On May 25th she announced new rules to encourage corporate whistle-blowing. Inducements will include cash: 10-30% of fines of over $1m that result from tip-offs. The US Chamber of Commerce, a business lobby, calls it a "bounty programme" that will reward "amateur sleuths in search of a big payday". It is threatening legal action to block it.

The new rules were required by the Dodd-Frank act, Congress's response to the financial crisis, which was passed last year. They follow an earlier effort to encourage employees to speak up. After Enron, an energy firm, collapsed in a flurry of fraud, Congress passed the Sarbanes-Oxley act in 2002 which, among other things, protected whistle-blowers from retaliation.

Employees have never found it easy to squeal on employers. Perhaps the most celebrated of corporate whistle-blowers, Sherron Watkins, a former executive at Enron, never went public with her prediction that the company might be brought down by fraud. She reported her concerns internally, and was ignored.

When the SEC released draft rules in November, businesses fretted that the financial rewards would prompt insiders to go straight to the commission, bypassing their firms' internal procedures-especially since that would reduce the risk of being victimised by the boss or branded a "disgruntled employee". The new rules try to correct this, for example by allowing a reward to be paid in some circumstances to whistle-blowers who only grumble internally.

The chance of making a fortune may encourage speculative whistle-blowing in the hope of winning the lottery. Ms Schapiro's new Office of the Whistleblower may be deluged with useless tips. But even that might be better than the status quo.

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Schumpeter

Building with big data

The data revolution is changing the landscape of business



Brett Ryder

IN A short story called "On Exactitude in Science", Jorge Luis Borges described an empire in which cartographers became so obsessive that they produced a map as big as the empire itself. This was so cumbersome that future generations left it to disintegrate. ("[I]n the western deserts, tattered fragments of the map are still to be found, sheltering some occasional beast or beggar.")

As usual, the reality of the digital age is outpacing fiction. Last year people stored enough data to fill 60,000 Libraries of Congress. The world's 4 billion mobile-phone users (12% of whom own smartphones) have turned themselves into data-streams. YouTube claims to receive 24 hours of video every minute. Manufacturers have embedded 30m sensors into their products, converting mute bits of metal into data-generating nodes in the internet of things. The number of smartphones is increasing by 20% a year and the number of sensors by 30%.

The McKinsey Global Institute (MGI) has no Borges-like qualms about the value of all these data. In a suitably fact-packed new report, "Big data: the next frontier for innovation, competition and productivity", MGI argues that data are becoming a factor of production, like physical or human capital. Companies that can harness big data will trample data-incompetents. Data equity, to coin a phrase, will become as important as brand equity. MGI insists that this is not just idle futurology: businesses are already adapting to big data.

Companies are assembling more detailed pictures of their customers than ever before. Tesco, a British retailer, collects 1.5 billion nuggets of data every month and uses them to adjust prices and promotions. Williams-Sonoma, an American retailer, uses its knowledge of its 60m customers (which includes such details as their income and the value of their houses) to produce different iterations of its catalogue. Amazon, an online retailer, has claimed that 30% of its sales are generated by its recommendation engine ("you may also like"). The mobile revolution adds a new dimension to customer-targeting. Companies such as America's Placecast are developing technologies that allow them to track potential consumers and send them enticing offers when they get within a few yards of a Starbucks.

The data revolution is disrupting established industries and business models. IT firms are nosing their way into the health-care market: Google Health and Microsoft HealthVault both allow consumers to track their health and record their treatments. Manufacturers are hastening their transformation into service companies: all those sensors allow them to monitor their products and see if they need repairing long before they break down. BMW uses sensor-data to tell its customers when their cars need to be serviced, for example. Insurance firms can now monitor the driving styles of their customers and offer them rates based on their competence (or recklessness) rather than their age and sex.

This revolution is changing government, too. Tax authorities are getting better at spotting spongers (for example, by flagging people who claim unemployment pay as well as occupational-injury benefits). Health services are mining clinical data to gauge the cost-effectiveness of drugs. After a detailed study of its clients, the German Federal Labour Agency managed to cut its annual spending by euro10 billion ($14 billion) over three years while also reducing the length of time people spent out of work.

MGI argues that the data deluge could create a new wave of productivity growth. Properly used, big data could save the American health-care system $300 billion a year and the European public sector euro250 billion. It could also enable retailers to increase their operating margins by 60%. But it is hard to read these figures without succumbing to Borges-style doubts. Will big companies and big governments use big data to trample on the little man? And is this mountain of data really as useful as MGI's data-heads think?

Power to the little people

The McKinseyites provide good answers to the first question. The data revolution is clearly handing power to the little people as well as the big ones. You can now buy a device that will store all the world's recorded music for just $600. Shoppers can use their mobile phones to scan bar codes to see if there is a better deal elsewhere. Citizens can use publicly available information to demand better public services. Britain's Open Knowledge Foundation has used government databases to develop a useful site called wheredoesmymoneygo.org. Dr Foster Intelligence provides patients with information about the quality of health care.

But on the second question, they are silent. Big data has the same problems as small data, but bigger. Data-heads frequently allow the beauty of their mathematical models to obscure the unreliability of the numbers they feed into them. (Garbage in, garbage out.) They can also miss the big picture in their pursuit of ever more granular data. During the 2008 presidential campaign Mark Penn provided Hillary Clinton with reams of micro-data, thus helping her to craft micro-policies aimed at tiny slices of the electorate. But Mrs Clinton was trounced by a man who grasped that people wanted to feel part of something bigger. The winning slogans were vague and broad ("hope" and "change").

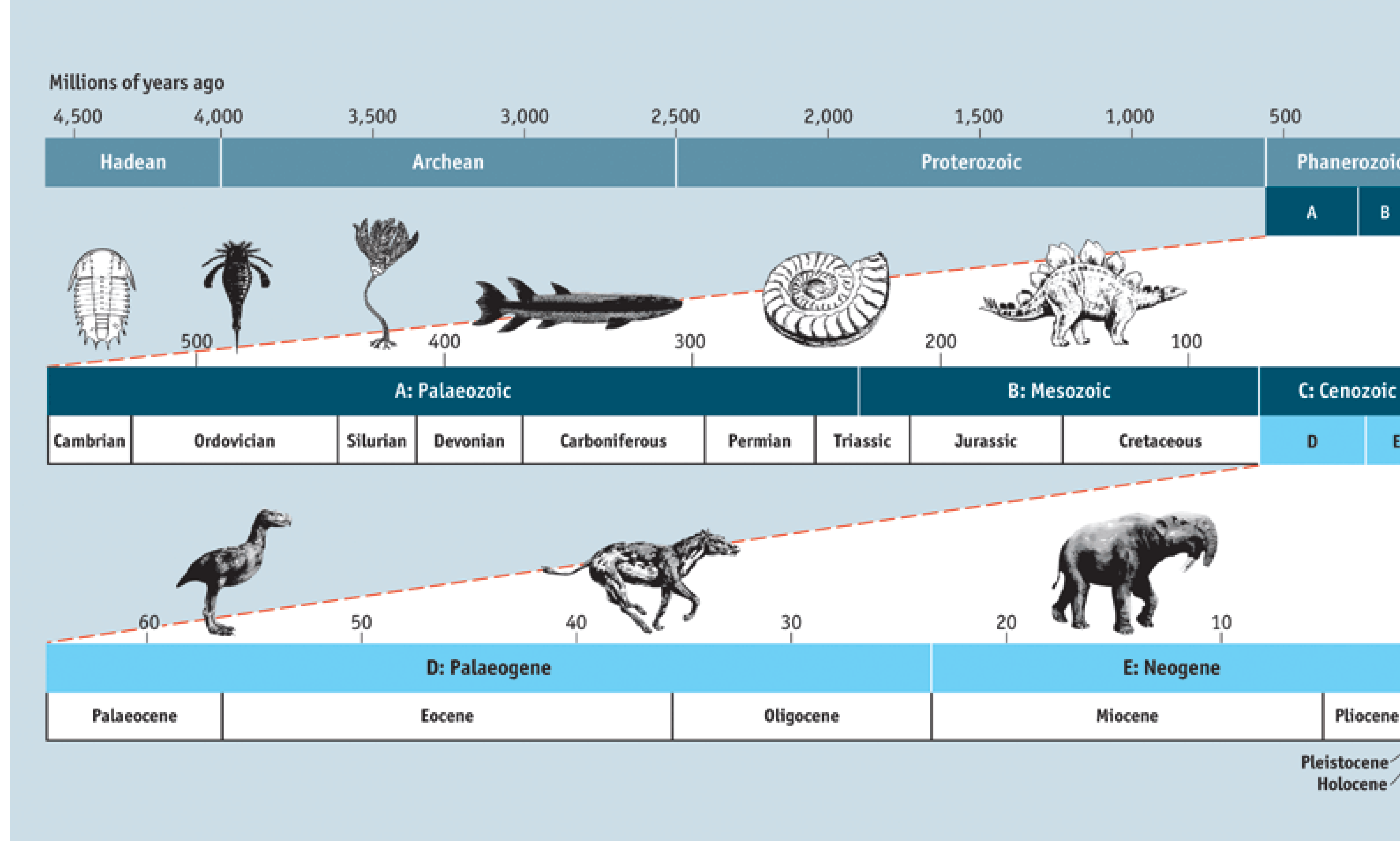
The sheer size of today's data banks means that companies need to be more careful than ever to treat data as a slave rather than a master. There is no substitute for sound intuition and wise judgment. But if firms can preserve a little scepticism, they can surely squeeze important insights from the ever-growing store of data. In the 1980s and 1990s retailers such as Walmart used their mastery of retailing data to launch the "big-box" revolution (huge out-of-town stores with ultra-low prices). Today's big data will provide the raw material for further revolutions.

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The Anthropocene

A man-made world



THE here and now are defined by astronomy and geology. Astronomy takes care of the here: a planet orbiting a yellow star embedded in one of the spiral arms of the Milky Way, a galaxy that is itself part of the Virgo supercluster, one of millions of similarly vast entities dotted through the sky. Geology deals with the now: the 10,000-year-old Holocene epoch, a peculiarly stable and clement part of the Quaternary period, a time distinguished by regular shifts into and out of ice ages. The Quaternary forms part of the 65m-year Cenozoic era, distinguished by the opening of the North Atlantic, the rise of the Himalayas, and the widespread presence of mammals and flowering plants. This era in turn marks the most recent part of the Phanerozoic aeon, the 540m-year chunk of the Earth's history wherein rocks with fossils of complex organisms can be found. The regularity of celestial clockwork and the solid probity of rock give these co-ordinates a reassuring constancy.

Now there is a movement afoot to change humanity's co-ordinates. In 2000 Paul Crutzen, an eminent atmospheric chemist, realised he no longer believed he was living in the Holocene. He was living in some other age, one shaped primarily by people. From their trawlers scraping the floors of the seas to their dams impounding sediment by the gigatonne, from their stripping of forests to their irrigation of farms, from their mile-deep mines to their melting of glaciers, humans were bringing about an age of planetary change. With a colleague, Eugene Stoermer, Dr Crutzen suggested this age be called the Anthropocene-"the recent age of man".

The term has slowly picked up steam, both within the sciences (the International Commission on Stratigraphy, ultimate adjudicator of the geological time scale, is taking a formal interest) and beyond. This May statements on the environment by concerned Nobel laureates and the Pontifical Academy of Sciences both made prominent use of the term, capitalising on the way in which it dramatises the sheer scale of human activity.

The advent of the Anthropocene promises more, though, than a scientific nicety or a new way of grabbing the eco-jaded public's attention. The term "paradigm shift" is bandied around with promiscuous ease. But for the natural sciences to make human activity central to its conception of the world, rather than a distraction, would mark such a shift for real. For centuries, science has progressed by making people peripheral. In the 16th century Nicolaus Copernicus moved the Earth from its privileged position at the centre of the universe. In the 18th James Hutton opened up depths of geological time that dwarf the narrow now. In the 19th Charles Darwin fitted humans onto a single twig of the evolving tree of life. As Simon Lewis, an ecologist at the University of Leeds, points out, embracing the Anthropocene as an idea means reversing this trend. It means treating humans not as insignificant observers of the natural world but as central to its workings, elemental in their force.

Sous la plage, les paves

The most common way of distinguishing periods of geological time is by means of the fossils they contain. On this basis picking out the Anthropocene in the rocks of days to come will be pretty easy. Cities will make particularly distinctive fossils. A city on a fast-sinking river delta (and fast-sinking deltas, undermined by the pumping of groundwater and starved of sediment by dams upstream, are common Anthropocene environments) could spend millions of years buried and still, when eventually uncovered, reveal through its crushed structures and weird mixtures of materials that it is unlike anything else in the geological record.

The fossils of living creatures will be distinctive, too. Geologists define periods through assemblages of fossil life reliably found together. One of the characteristic markers of the Anthropocene will be the widespread remains of organisms that humans use, or that have adapted to life in a human-dominated world. According to studies by Erle Ellis, an ecologist at the University of Maryland, Baltimore County, the vast majority of ecosystems on the planet now reflect the presence of people. There are, for instance, more trees on farms than in wild forests. And these anthropogenic biomes are spread about the planet in a way that the ecological arrangements of the prehuman world were not. The fossil record of the Anthropocene will thus show a planetary ecosystem homogenised through domestication.

More sinisterly, there are the fossils that will not be found. Although it is not yet inevitable, scientists warn that if current trends of habitat loss continue, exacerbated by the effects of climate change, there could be an imminent and dramatic number of extinctions before long.

All these things would show future geologists that humans had been present. But though they might be diagnostic of the time in which humans lived, they would not necessarily show that those humans shaped their time in the way that people pushing the idea of the Anthropocene want to argue. The strong claim of those announcing the recent dawning of the age of man is that humans are not just spreading over the planet, but are changing the way it works.

Such workings are the province of Earth-system science, which sees the planet not just as a set of places, or as the subject of a history, but also as a system of forces, flows and feedbacks that act upon each other. This system can behave in distinctive and counterintuitive ways, including sometimes flipping suddenly from one state to another. To an Earth-system scientist the difference between the Quaternary period (which includes the Holocene) and the Neogene, which came before it, is not just what was living where, or what the sea level was; it is that in the Neogene the climate stayed stable whereas in the Quaternary it swung in and out of a series of ice ages. The Earth worked differently in the two periods.

The clearest evidence for the system working differently in the Anthropocene comes from the recycling systems on which life depends for various crucial elements. In the past couple of centuries people have released quantities of fossil carbon that the planet took hundreds of millions of years to store away. This has given them a commanding role in the planet's carbon cycle.

Although the natural fluxes of carbon dioxide into and out of the atmosphere are still more than ten times larger than the amount that humans put in every year by burning fossil fuels, the human addition matters disproportionately because it unbalances those natural flows. As Mr Micawber wisely pointed out, a small change in income can, in the absence of a compensating change in outlays, have a disastrous effect. The result of putting more carbon into the atmosphere than can be taken out of it is a warmer climate, a melting Arctic, higher sea levels, improvements in the photosynthetic efficiency of many plants, an intensification of the hydrologic cycle of evaporation and precipitation, and new ocean chemistry.

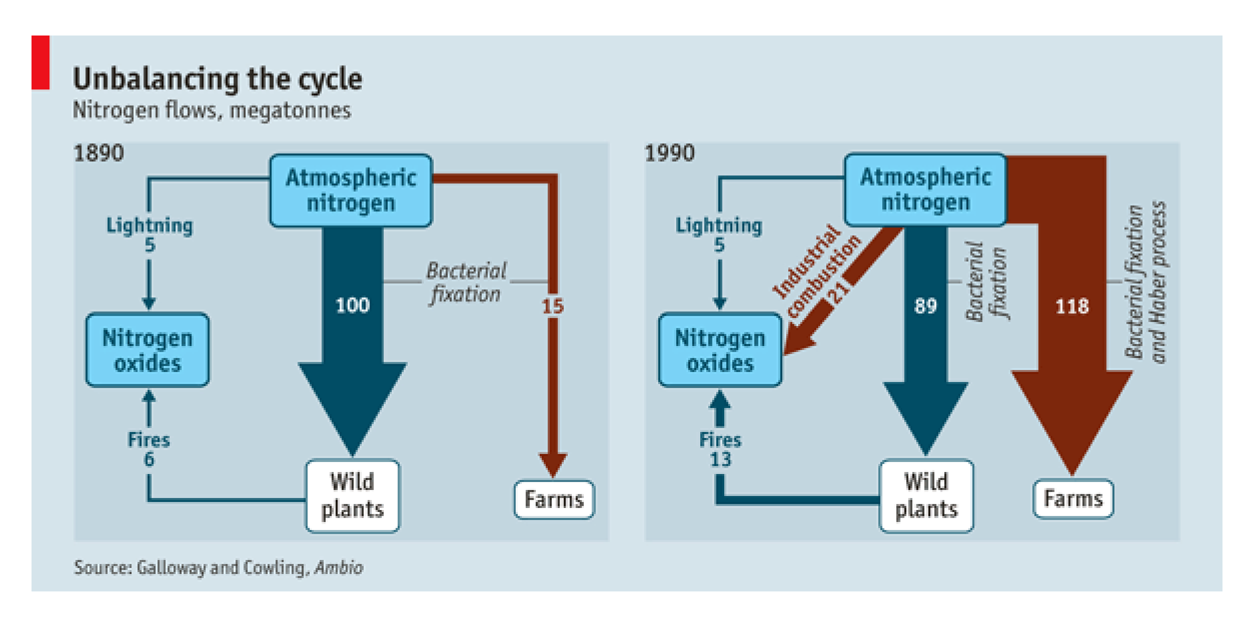
All of these have knock-on effects both on people and on the processes of the planet. More rain means more weathering of mountains. More efficient photosynthesis means less evaporation from croplands. And the changes in ocean chemistry are the sort of thing that can be expected to have a direct effect on the geological record if carbon levels rise far enough.

At a recent meeting of the Geological Society of London that was devoted to thinking about the Anthropocene and its geological record, Toby Tyrrell of the University of Southampton pointed out that pale carbonate sediments-limestones, chalks and the like-cannot be laid down below what is called a "carbonate compensation depth". And changes in chemistry brought about by the fossil-fuel carbon now accumulating in the ocean will raise the carbonate compensation depth, rather as a warmer atmosphere raises the snowline on mountains. Some ocean floors which are shallow enough for carbonates to precipitate out as sediment in current conditions will be out of the game when the compensation depth has risen, like ski resorts too low on a warming alp. New carbonates will no longer be laid down. Old ones will dissolve. This change in patterns of deep-ocean sedimentation will result in a curious, dark band of carbonate-free rock-rather like that

which is seen in sediments from the Palaeocene-Eocene thermal maximum, an episode of severe greenhouse warming brought on by the release of pent-up carbon 56m years ago.

The fix is in

No Dickensian insights are necessary to appreciate the scale of human intervention in the nitrogen cycle. One crucial part of this cycle-the fixing of pure nitrogen from the atmosphere into useful nitrogen-containing chemicals-depends more or less entirely on living things (lightning helps a bit). And the living things doing most of that work are now people (see chart). By adding industrial clout to the efforts of the microbes that used to do the job single-handed, humans have increased the annual amount of nitrogen fixed on land by more than 150%. Some of this is accidental. Burning fossil fuels tends to oxidise nitrogen at the same time. The majority is done on purpose, mostly to make fertilisers. This has a variety of unwholesome consequences, most importantly the increasing number of coastal "dead zones" caused by algal blooms feeding on fertiliser-rich run-off waters.



Industrial nitrogen's greatest environmental impact, though, is to increase the number of people. Although nitrogen fixation is not just a gift of life-it has been estimated that 100m people were killed by explosives made with industrially fixed nitrogen in the 20th century's wars-its net effect has been to allow a huge growth in population. About 40% of the nitrogen in the protein that humans eat today got into that food by way of artificial fertiliser. There would be nowhere near as many people doing all sorts of other things to the planet if humans had not sped the nitrogen cycle up.

It is also worth noting that unlike many of humanity's other effects on the planet, the remaking of the nitrogen cycle was deliberate. In the late 19th century scientists diagnosed a shortage of nitrogen as a planet-wide problem. Knowing that natural processes would not improve the supply, they invented an artificial one, the Haber process, that could make up the difference. It was, says Mark Sutton of the Centre for Ecology and Hydrology in Edinburgh, the first serious human attempt at geoengineering the planet to bring about a desired goal. The scale of its success outstripped the imaginings of its instigators. So did the scale of its unintended consequences.

For many of those promoting the idea of the Anthropocene, further geoengineering may now be in order, this time on the carbon front. Left to themselves, carbon-dioxide levels in the atmosphere are expected to remain high for 1,000 years-more, if emissions continue to go up through this century. It is increasingly common to hear climate scientists arguing that this means things should not be left to themselves-that the goal of the 21st century should be not just to stop the amount of carbon in the atmosphere increasing, but to start actively decreasing it. This might be done in part by growing forests (see article) and enriching soils, but it might also need more high-tech interventions, such as burning newly grown plant matter in power stations and pumping the resulting carbon dioxide into aquifers below the surface, or scrubbing the air with newly contrived chemical-engineering plants, or intervening in ocean chemistry in ways that would increase the sea's appetite for the air's carbon.

To think of deliberately interfering in the Earth system will undoubtedly be alarming to some. But so will an Anthropocene deprived of such deliberation. A way to try and split the difference has been propounded by a group of Earth-system scientists inspired by (and including) Dr Crutzen under the banner of "planetary boundaries". The planetary-boundaries group, which published a sort of manifesto in 2009, argues for increased restraint and, where necessary, direct intervention aimed at bringing all sorts of things in the Earth system, from the alkalinity of the oceans to the rate of phosphate run-off from the land, close to the conditions pertaining in the Holocene. Carbon-dioxide levels, the researchers

recommend, should be brought back from whatever they peak at to a level a little higher than the Holocene's and a little lower than today's.

The idea behind this precautionary approach is not simply that things were good the way they were. It is that the further the Earth system gets from the stable conditions of the Holocene, the more likely it is to slip into a whole new state and change itself yet further.



You maniacs! You blew it up!

The Earth's history shows that the planet can indeed tip from one state to another, amplifying the sometimes modest changes which trigger the transition. The nightmare would be a flip to some permanently altered state much further from the Holocene than things are today: a hotter world with much less productive oceans, for example. Such things cannot be ruled out. On the other hand, the invocation of poorly defined tipping points is a well worn rhetorical trick for stirring the fears of people unperturbed by current, relatively modest, changes.

In general, the goal of staying at or returning close to Holocene conditions seems judicious. It remains to be seen if it is practical. The Holocene never supported a civilisation of 10 billion reasonably rich people, as the Anthropocene must seek to do, and there is no proof that such a population can fit into a planetary pot so circumscribed. So it may be that a "good Anthropocene", stable and productive for humans and other species they rely on, is one in which some aspects of the Earth system's behaviour are lastingly changed. For example, the Holocene would, without human intervention, have eventually come to an end in a new ice age. Keeping the Anthropocene free of ice ages will probably strike most people as a good idea.

Dreams of a smart planet

That is an extreme example, though. No new ice age is due for some millennia to come. Nevertheless, to see the Anthropocene as a blip that can be minimised, and from which the planet, and its people, can simply revert to the status quo, may be to underestimate the sheer scale of what is going on.

Take energy. At the moment the amount of energy people use is part of what makes the Anthropocene problematic, because of the carbon dioxide given off. That problem will not be solved soon enough to avert significant climate change unless the Earth system is a lot less prone to climate change than most scientists think. But that does not mean it will not be solved at all. And some of the zero-carbon energy systems that solve it-continent- scale electric grids distributing solar energy collected in deserts, perhaps, or advanced nuclear power of some sort-could, in time, be scaled up to provide much more energy than today's power systems do. As much as 100 clean terawatts, compared to today's dirty 15TW, is not inconceivable for the 22nd century. That would mean humanity was producing roughly as much useful energy as all the world's photosynthesis combined.

In a fascinating recent book, "Revolutions that Made the Earth", Timothy Lenton and Andrew Watson, Earth-system scientists at the universities of Exeter and East Anglia respectively, argue that large changes in the amount of energy

available to the biosphere have, in the past, always marked large transitions in the way the world works. They have a particular interest in the jumps in the level of atmospheric oxygen seen about 2.4 billion years ago and 600m years ago. Because oxygen is a particularly good way of getting energy out of organic matter (if it weren't, there would be no point in breathing) these shifts increased sharply the amount of energy available to the Earth's living things. That may well be why both of those jumps seem to be associated with subsequent evolutionary leaps-the advent of complex cells, in the first place, and of large animals, in the second. Though the details of those links are hazy, there is no doubt that in their aftermath the rules by which the Earth system operated had changed.

The growing availability of solar or nuclear energy over the coming centuries could mark the greatest new energy resource since the second of those planetary oxidations, 600m years ago-a change in the same class as the greatest the Earth system has ever seen. Dr Lenton (who is also one of the creators of the planetary-boundaries concept) and Dr Watson suggest that energy might be used to change the hydrologic cycle with massive desalination equipment, or to speed up the carbon cycle by drawing down atmospheric carbon dioxide, or to drive new recycling systems devoted to tin and copper and the many other metals as vital to industrial life as carbon and nitrogen are to living tissue. Better to embrace the Anthropocene's potential as a revolution in the way the Earth system works, they argue, than to try to retreat onto a low-impact path that runs the risk of global immiseration.

Such a choice is possible because of the most fundamental change in Earth history that the Anthropocene marks: the emergence of a form of intelligence that allows new ways of being to be imagined and, through co-operation and innovation, to be achieved. The lessons of science, from Copernicus to Darwin, encourage people to dismiss such special pleading. So do all manner of cultural warnings, from the hubris around which Greek tragedies are built to the lamentation of King David's preacher: "Vanity of vanities, all is vanity...the Earth abideth for ever...and there is no new thing under the sun." But the lamentation of vanity can be false modesty. On a planetary scale, intelligence is something genuinely new and powerful. Through the domestication of plants and animals intelligence has remade the living environment. Through industry it has disrupted the key biogeochemical cycles. For good or ill, it will do yet more.

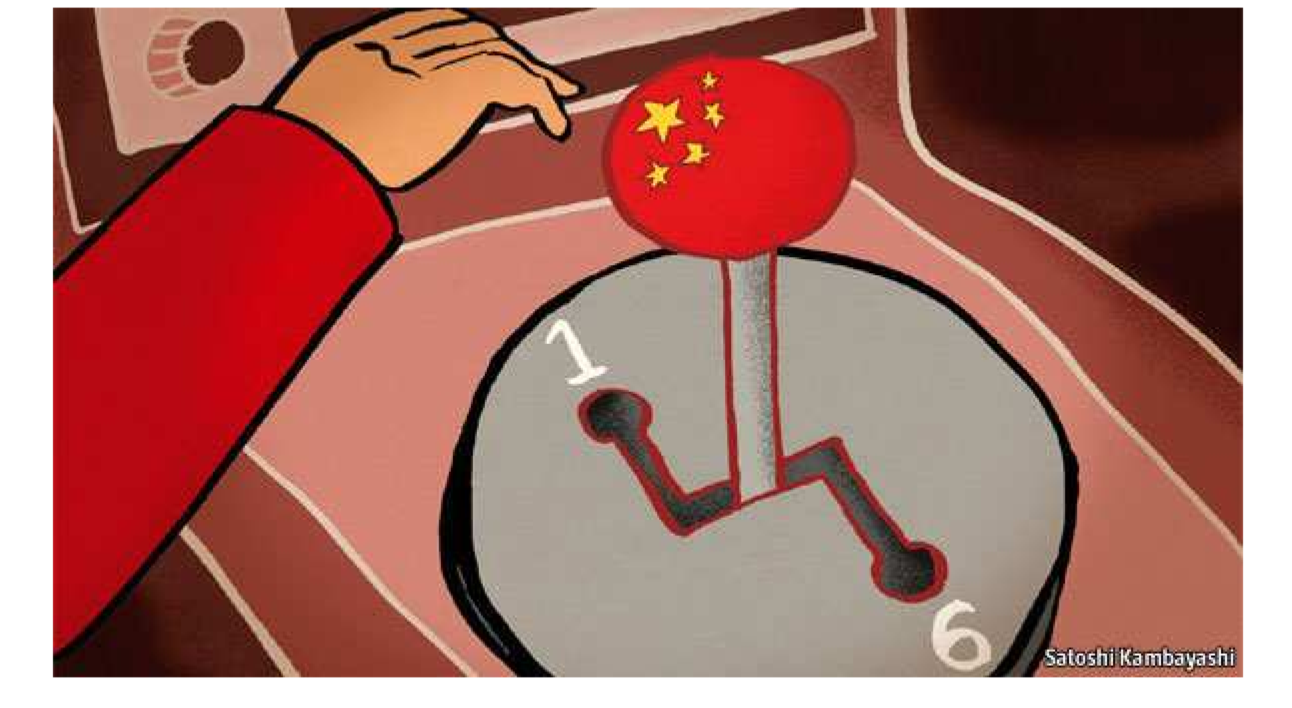
It may seem nonsense to think of the (probably sceptical) intelligence with which you interpret these words as something on a par with plate tectonics or photosynthesis. But dam by dam, mine by mine, farm by farm and city by city it is remaking the Earth before your eyes.

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China and the world economy

Crosstown traffic

The global economy is slowing. For one of its biggest members, that is good news



FOR the past year or two, the big economies have experienced a "multi-speed" recovery, as the IMF calls it. The recovery has resembled third-world traffic, where juggernauts and rickshaws, cars and cycles ply the same lanes at different speeds, often getting in each other's way.

But for the past month or two, this traffic has slowed in unison. The deceleration is evident in the prices of commodities, which have fallen by 8.6% since mid-February, according to *The Economist*'s commodity-price index. It is also reflected in American manufacturing. New orders for durable goods, such as engines and cars, fell by 3.6% in April (albeit after a strong rise the month before). Factory output is still growing modestly, according to the Philadelphia Fed's latest survey, but has lost more momentum since March than in any two months since November 2008.

America's recovery relied for longer than most on fiscal injections. But by early August the federal government will bang up against a debt limit imposed by Congress. Any deal to raise the limit would almost certainly require spending reductions, and failure to strike a deal at all would require drastic cuts as the government stops selling debt. Even if the government is allowed to keep selling debt, the Federal Reserve will soon stop buying it, as it reaches the end of its latest round of "quantitative easing", a programme to buy longer-dated paper with freshly printed money.

The euro zone's prospects of growing its way out of trouble are receding, according to surveys of purchasing managers by HSBC and Markit, an information provider. Their "flash" (ie, preliminary) index for the euro-area economy fell sharply from 57.8 in April to 55.4 in May, a drop not seen since late 2008. In services the pessimism expressed about the coming year was reminiscent of mid-2009, before the recovery had picked up any speed at all.



The "flash" causing the biggest splash this week was, however, not in Europe but in China. HSBC's preliminary estimate for Chinese manufacturing fell to 51.1 (see chart), well below the long-term average of 52.3, confirming a slowdown

evident in April's industrial-production figures. The release hurt stockmarkets worldwide. In a single day the Shanghai Composite index gave up its gains for the year.

This strong reaction was curious. In China, unlike the euro area or America, a slowdown is overdue. Its growth in the past two quarters was too fast to sustain, resulting in a worrisome rise in inflation. The government has been trying to slow the economy, by reining in runaway lending. The industrial slowdown is welcome evidence that these measures are working.

A PMI reading above 50 indicates rising output; one of 51.1 is consistent with GDP growth of 9%, says HSBC. But the figure immediately raised fears of a much harder landing. Observers may worry that inflation has already got out of hand, forcing the government to hammer the economy to bring prices back under control. At the end of 1994, for example, China faced inflation of over 25%. In the next two years, tight macroeconomic controls knocked 4.6 percentage points off its growth rate.

But inflation in China is now only 5.3%. Vegetable prices have fallen, and non-food inflation may be easing. China's inflation has proved more stubborn than expected. But growth will not have to slow by four points to quell it.

Some observers worry that the economy will run out of steam because coal is increasingly costly and electricity in short supply. In recent months Chinese industry has suffered power cuts reminiscent of 2004. But China had outages then because its power stations could not make enough power, points out Mark Williams of Capital Economics. It suffers cuts now because they cannot make enough money. The government has not allowed electricity tariffs to rise in step with coal prices, forcing producers to operate at a loss. Raising tariffs is the solution, even if it adds temporarily to the inflation figures.

The final reason to worry is also the most grave. Many fear that China's overstretched property market will collapse, leaving insupportable debts in its wake. The government's curbs on mortgage borrowing and speculative homebuying are having some effect on sales (down by 10% in the year to April) but not yet on "starts", or new homebuilding, points out Tao Wang of UBS Securities. Perhaps the government's drive to build more affordable housing is offsetting a slowdown in unaffordable housing.

If the bubble were to burst, developers would suffer horribly. Recent homebuyers would also find themselves out of pocket. But in China, unlike America, housing is a vehicle for saving, not for borrowing. Householders are not up to their necks in mortgage debt, although it has risen quickly to about knee height: over a third of disposable income last year, compared with less than a quarter two years before. If prices fell heavily, the damage to households' wealth might dampen spending. But they would not be submerged in debt.

Banks also say their exposure to property is manageable, at about 20% of loans. Their indirect exposure might go much deeper. But if their ratios of non-performing loans (NPLs) ever rose too high, the government would step in. As Stephen Green of Standard Chartered puts it, "small NPLs are a bank's problem; big NPLs are the government's problem."

Given the improbability of a hard landing in China, the swings of sentiment towards its economy are difficult to understand. Ms Wang suggests one explanation: "Outside China most people's exposure to the country is through the commodities market," she says. "In that market, things tend to get accentuated...[they] are either great or they are a disaster." It is like the little-known tale of Goldilocks and the Two Pandas. The Chinese economy is either too hot or too cold, but never just right.

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Buttonwood

Faith and the markets

The religious rituals of the finance sector



HAROLD CAMPING, the radio preacher who inaccurately forecast that the Apocalypse would begin on May 21st, made a rookie's mistake. Any pundit could have told him that when you forecast an event, you should not name a date. But if you are forced into doing so, choose a date so far in the future that you will not be around to be proved wrong.

Religion is largely a matter of faith, rather than scientifically testable propositions. But even in the financial markets, where participants worship Mammon rather than God, faith plays a larger role than its hard-headed participants would like to admit.

When it comes to assessing the prospects of a company like LinkedIn, a newly floated online business-networking firm, investors rely entirely on the assumption that the company's future growth can justify the stratospheric level of its current valuation. They have to assess the management's strategy, the level of competition, changes in customer habits, the economic outlook and many other factors that are extremely difficult to forecast. Buying shares in such a company is a leap of faith by any standard.

During the lead-up to the establishment of the European single currency, investors bought the bonds of weaker governments on the ground that all would converge on the high standing of Germany. They had faith that countries like Greece and Portugal would use the breathing space of lower interest rates to usher in economic reform. That belief proved sadly misplaced.

Finance even has its own high priests in the form of the analysts and fund managers who promise their clients heavenly rewards if only they listen to their advice. They preach regular sermons in the form of brokers' notes and quarterly reports, and they house themselves in vast cathedral-like buildings that dominate the skyline. Each day also has its canonical hours as traders pray for profitable opportunities at the European, American and Asian market openings. Finance has its annual calendar, too, marked with festivals known as results seasons in which the lucky participants receive their temporal (rather than spiritual) dividends.

And like any self-respecting religion, finance has its doctrinal schisms as well. Active fund managers are a bit like the medieval Catholic church, offering eternal salvation to those willing to pay the appropriate sum, which are known in modern parlance as performance fees rather than indulgences. The active-investment sect has its elaborate rituals and language, with a liturgy ("information ratios" and "alpha generation") as baffling to the layman as the Latin mass was to the medieval peasant. Clients are supposed to listen to their presentations in a reverential hush, trusting that all the mumbo-jumbo will deliver superior results.

The passive fund managers, or index-trackers, are akin to early Lutherans. Investors have no need for priestly intermediaries between them and the market, say the index-trackers. All they require is the full text of those companies that are included in the benchmark.

Finance also has its equivalent of holy men, the gurus who pronounce on the market outlook. Not for nothing is Warren Buffett known as the "sage of Omaha". The faithful conduct an annual pilgrimage to Nebraska every year to attend the annual meeting of his company, Berkshire Hathaway. His folksy demeanour would surely make him the ideal neighbourhood priest, bringing comfort through life's ups and downs. Those made of sterner stuff prefer the more

puritanical oratory of Nouriel Roubini, forever preaching hellfire and damnation for those (particularly the Federal Reserve) who fail to repent.

Finance seems to be a polytheistic rather than a monotheistic faith. The objects of veneration change on a regular basis from emerging markets through internet companies to commodities. These enthusiasms often have a cultlike quality with adherents inclined to pour scorn on unbelievers who "just don't get it". It is striking that the cults often involve asset classes that do not deliver much in the way of immediate cashflow. Dividends will be paid far into the future, long after the likely holding period of the average investor. It is a little bit like the promise of an afterlife.

Even when these cults prove to be built on sand, investors show a remarkable willingness to forget their disappointment and move on. Mr Camping clearly hopes his followers will be equally forgiving. He has revised his doomsday forecast to October 21st.

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Europe's debt crisis

World's worst menu

Greece has no good options left

VIENNA'S glories are largely faded but its name is being mentioned with increasing frequency by the euro area's policymakers. The "Vienna initiative" was a plan, drawn up in 2009, that halted the rot of financial contagion spreading through central and eastern Europe. Foreign banks pledged not to cut their exposures to the region and run. It is now being discussed as a possible model for resolving Greece's sovereign-debt crisis.

The need to come up with a new plan for Greece is mounting. On May 20th Fitch, a ratings agency, cut the country's debt rating by another three notches. Yields on Greek ten-year bonds this week reached 16.8%, more than twice what they were a year ago. With the markets shying away, the country will not be able to borrow afresh next year, as had originally been hoped when the country was first bailed out in May 2010. The IMF's latest review is due out in June; it is likely to praise Greece for its progress so far but also to fret about how next year's numbers add up.

The Greek government is playing what few cards it still has. On May 23rd it announced plans to speed up the sale of state-owned assets, including its telephone company, post office and ports. Under pressure from its neighbours and the fund it hopes to raise euro50 billion ($70.8 billion) from privatisations. Asset sales are an attractive way of cleaning up the public balance-sheet without doing anything that further chokes demand. There are, however, doubts that Greece can realise its ambitions, partly because the absence of a land registry means that the government may not have clear legal title to all of the things it wants to sell, partly because it is not clear what price they could fetch, and partly because privatisation arouses political opposition at home.

Scylla, Charybdis and others

Options to solve Greece's debt crisis

Options	What it means	Pros	Cons
Fiscal transfers	Euro-area members give Greece money	Brings down Greece's debt burden. The ECB will not oppose it.	Impossible to sell openly to voters. May encourage profligacy.
Bail-out loans	Euro-zone members and IMF lend Greece more money	Buys Greece more time. The ECB will not oppose it.	Does not address solvency issue. New loan conditions may throttle growth. Official creditors gradually replace private creditors. Hard to sell to voters.
"Vienna initiative"	Banks "volunteer" to roll over holdings of Greek debts	Buys Greece time; does not leave taxpayers to pick up the bill; less likely to trigger ratings downgrade	Does not address solvency issue. Difficult to co-ordinate.
"Soft" restructuring or reprofiling	Creditors "volunteer" to extend maturities of existing debt	Buys Greece time; does not leave taxpayers to pick up the bill; may not be a credit event for CDSs	Does not fix solvency issue. Probably still means a ratings downgrade. The ECB doesn't like it.
"Hard" restructuring	Serious haircut on the the value of Greek debt	Brings down Greece's debt burden. Imposes immediate losses on private creditors.	Hurts Greek banks and risks wider contagion. Reduces reform pressure on Greeks. The ECB absolutely hates it.

Source: *The Economist*

In any case, sell-offs will not happen quickly enough to bridge the financing gap in 2012. That leaves Europe facing a range of unpalatable options (see table). No European policymaker seems willing to countenance a serious haircut on Greek debt yet, for fear that it undermines confidence elsewhere. And no European politician wants to be seen giving more taxpayers' money to the Greeks without getting something back.

Another option is a "reprofiling", whereby creditors agree to a voluntary extension of the maturity of their bonds. That would not sort out Greece's finances-it might reduce the net present value of Greek debt by up to 20-25%-but it would keep the country away from the markets for a while. But the ratings agencies have said that such a "soft restructuring", or even the buyback and cancellation of outstanding bonds (which Moody's calls a "restructuring by stealth"), would count as a default and lead to further cuts in Greece's rating. That makes it unacceptable to the European Central Bank (ECB), whose opposition to any form of debt restructuring borders on the pathological.

Hence the interest in a second Vienna initiative, whereby Greece's existing creditors would band together and agree to roll over their exposures to Greek debt when they fall due. That would give Greece more time to fix its finances, might keep the ratings agencies at bay, and perhaps even satisfy the ECB. But it would do nothing to reduce Greece's debt burden and would be hugely difficult to co-ordinate. Bondholders are harder to marshal than bank lenders. And Europe seems unable to get any message straight. "At every meeting we say that we have to get communication right," says a euro-area minister. "And then someone talks after the meeting."

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Ireland's chances of recovery

Celtic cross

A return to decent growth is essential

ANOTHER bad week for Europe, featuring sit-ins in Spain, a lowered ratings outlook for Italy and yet another austerity plan for Greece. The Irish, at least, had Barack Obama's flying visit to celebrate, but the spectacle of the American president downing Guinness in a pub in Moneygall did not divert the markets. Irish bond yields scaled new euro-era highs, uncomfortably above their levels when a bail-out package was announced in November. Questions swirl about the country's ability to escape a debt trap similar to the one in which Greece, the first economy to require emergency help, is enmeshed.



According to a report from the IMF on May 20th, Ireland's public debt, which was just 25% of GDP in 2007, is already 96% and is due to reach 111% this year (see chart). A seemingly model fiscal pupil is now at the back of the euro-area class because of the cost of rescuing Irish banks, which has reached 42% of GDP, and a collapse in national output and property-dependent tax revenues.

The IMF forecasts that public debt will peak at 120% of GDP in 2013 but then fall only slowly to 117% by 2016. This dismal prognosis is actually less gloomy than the fund's original assessment in December, which saw Irish debt reaching 125% of GDP. That reflects the fact that the amount of extra support needed by the banks is now estimated at euro24 billion ($34 billion) rather than the euro35 billion earmarked in the initial rescue package.

A lot has to go right for the plan to succeed in stabilising debt, however. Even more wrenching fiscal austerity is needed to bring the budget deficit down from the 10.6% of GDP forecast by the IMF this year towards more manageable levels. That in itself will hold a recovery back, unless Ireland's exporters can overcome the downward pull from a beaten-up domestic economy. This is not impossible. With exports worth about as much as its GDP, Ireland is an extraordinarily open economy-far more so than either Greece or Portugal, which in April became the third economy to require a bail-out.

Those exports come mainly from multinationals. American firms in particular have long favoured Ireland as a place to set up factories and run service facilities thanks to its well-educated labour force and low corporate-tax rate. Even though last year was wretched for the economy, the number of new foreign-direct investment projects in Ireland rose by 36%, according to a report this week from Ernst & Young, an accountancy firm. By contrast Greece, Portugal and Spain suffered falls. Barry O'Leary, who heads IDA Ireland, the agency promoting inward investment, says that the pain of recent years has helped to make the country a more competitive location.

The IMF is forecasting growth of 0.6% this year-the first rise since 2007-and 1.9% next. Others are less sanguine. In a forecast due to be published on May 31st, Ernst & Young sees a fourth year of contraction, with GDP down by 2.3% in 2011. Neil Gibson, an economic adviser to the firm, fears that the strength of exports will be overwhelmed by weaknesses at home, with consumers and government reining in their spending and domestic businesses unable to raise money for investment. Mr Obama lifted the spirits, but only briefly.

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Frozen warrants in Hong Kong

A $45m typo

Goldman Sachs gets burned by, er, Goldman Sachs

FOR Hong Kong's population, trading in complex financial products rivals a day at the track. Despite the territory's tiny size, its market for "exchange-traded warrants" is the most active in the world. Last year's turnover of $534 billion put it far ahead of South Korea and Germany, the next biggest. The instruments give investors the right to buy a security at a fixed price, allowing them to bet on which way a market will move or to arbitrage differences between the warrant and its components.

Almost 14,400 such products were issued in Hong Kong last year by a dozen or so big banks, each with a prospectus the size of a phone book that must be approved by the exchange's listing committee and incurs a registration fee of HK$100,000 ($13,000). Given the warrants' complexity, problems can emerge. Few cases will excite more *Schadenfreude* than that involving Goldman Sachs.

On February 11th Goldman issued four warrants tied to Japan's Nikkei index which were described in three separate filings amounting to several hundred pages. Buried in the instructions to determine the settlement price was a formula that read "(Closing Level - Strike Level) x Index Currency Amount x Exchange Rate". It is Goldman's contention that rather than multiplying the currency amount by the exchange rate, it should have divided by the exchange rate. Oops.

The mistake meant that the warrant should have had a much higher price than that quoted by Goldman. According to a report compiled for Hong Kong's legislature, the exchange was notified at 9.10am on March 31st by a lawyer for Goldman that an error had been made and quotes would be suspended. At 9.40am, just after the opening of trading, the exchange began receiving complaints from traders who wanted to buy in. By 10.52am, with prices spiking and after a request from Goldman, the exchange suspended trading. The notes have been frozen ever since.

Goldman has made an offer to buy back the warrants from holders for a 10% premium on their purchase price, plus a fixed payment to cover broker fees. In resisting a settlement tied to the published formula, Goldman cites a clause in the prospectus that lets an issuer change terms "of a formal, minor or technical nature, which is made to correct an obvious error".

This argument has not won over the 124 warrant-holders. Based on the formula provided in the prospectus, says one of them, Goldman could be on the hook for HK$350m, as opposed to the estimated HK$10m being offered. The bank's offer has already been extended once because of lacklustre response. Holders also allege that after it notified the exchange of the problem but before trading was frozen, Goldman continued to bid to buy back the warrants while ceasing sell offers that would have meant disclosing the real price based on the prospectus. Goldman merely says it made offers at the "correct" price.

There are wider issues at stake. Warrant-holders slam the Hong Kong exchange, not just for approving the prospectus but for treading softly around an important, and profitable, client. (The exchange has launched an investigation of its own.) Politicians are taking an interest. "If it was possible to renege even on what was written down in black and white, how can we possibly be an international financial centre any more?" asked James To, a member of the Legislative Council (Legco), at a hearing in April; another Legco hearing was held this week and a further one is due in June. Perhaps the biggest question of all concerns the complexity of these instruments. What other risks might be lurking in the market undergrowth?

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The financial crisis on film

Not quite Normandy

Big banks toppling on the small screen



Hank looks Hurt

ANDREW ROSS SORKIN'S "Too Big to Fail" was one of the most talked-about books on the financial crisis. At 640 pages, however, the *New York Times* reporter's account of Lehman Brothers' demise and the storm it unleashed was also, some joked, too big to read. A bite-sized version is now on offer to those with short attention spans, courtesy of HBO, whose 98-minute film of the book premiered this week on American TV.

It is the best of the handful of attempts so far to dramatise the credit crunch on stage or screen (others include Sir David Hare's disappointingly undramatic "The Power of Yes" and the BBC's messy "The Last Days of Lehman Brothers"). The film-not to be confused with a pornographic "tribute to the Wall Street rescue" of the same name-is fast-paced, well-acted and clear. The causes of the crisis are explained in terms viewers can understand, as is the ugly choice between bail-out and total meltdown faced by Henry Paulson, the treasury secretary (played by William Hurt), and his bleary-eyed colleagues.

Eager for a sympathetic portrayal, Mr Paulson courted HBO and Mr Hurt, even taking the actor on holiday. The more he tried to "saddle up" to the project, the warier of him its leaders grew, says an insider. Still, he is shown in a generally positive light, sometimes misreading the political mood but mostly making the best of a bad situation.

The story covers all the main moments of September 2008: the expletive-laced fall from grace of Dick Fuld, played by James Woods; the chaos of the weekend Lehman collapsed; and an exhausted Mr Paulson, begging congressional leaders on his knees to back a huge rescue plan.

This is about as exciting as men in suits (and the occasional woman) poring over spreadsheets gets. Wall Street's near-death experience set off an economic tsunami, but was less dramatic in human terms. "Saving Private Ryan" this is not. As one banker says to a whining colleague: "You're getting out of a Mercedes to go into the Federal Reserve. It's not a Higgins boat on Omaha Beach."

Not that Mr Ross Sorkin will care. He reportedly bagged a $700,000 advance for the book as well as an undisclosed sum for the film rights-and $800 a day for his cameo as an inquisitive journalist. Who says capitalism is at bay?

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Mobile payments in America

Money? There's an app for that

Attempts to turn mobile phones into digital wallets gather pace



I'm on the bank

A CUSTOMER walks into Pinkie's Bakery in San Francisco and pulls out his smartphone. After a couple of taps on the screen, he strolls up to the counter and asks for one of the bakery's mouth-watering brioches. The employee at the "till"- which is, in fact, an iPad-sees the customer's details on its screen and asks him to confirm his name. Then she taps the iPad to take the payment, which will be charged to his credit-card account, and hands over the food. On his way out, the customer's phone beeps and an electronic record of the transaction appears on a digital card for Pinkie's that sits in a software application, or "app", on his phone.

That app-and the entire paperless payment process it is a part of-is a product of Square, a start-up co-founded by Jack Dorsey, one of the creators of Twitter. Square wants to undercut the credit-card processing fees charged to small businesses and to make it easy for them to accept digital payments. Unveiling the firm's new payments system on May 23rd, Mr Dorsey boldly predicted that it would make cash registers redundant. His is not the only tech firm hoping to persuade Americans to embrace digital money. After *The Economist* went to press on May 26th, Google was expected to unveil plans to test its own mobile-payment service. (It is less interested in fees, more in using data on mobile payments to improve its aiming of mobile ads.)

Interlopers from the world of high technology are itching to get their hands on a slice of the $3.7 trillion that the *Nilson Report*, a payment-card journal, reckons Americans charged to credit and debit cards last year. They face stiff competition from banks and credit-card firms, which have been busy launching their own mobile-payment experiments. "It's the wild, wild West out there," says David Owen of Bank of America, which is running a test with MasterCard and Visa involving BlackBerry-toting customers in several cities.

Both geeks and moneymen know that persuading more Americans to use their phones as mobile wallets will not be easy. America still lags behind Europe and Asia in mobile-payment adoption, and has been leapfrogged in sophistication by places such as Kenya, where poor landlines have led to extensive mobile usage. A survey by Javelin Strategy & Research published last year found that only 19% of Americans were interested in using some form of contactless payment.

Those who think mobile wallets' time has come point out that more and more tech firms are embracing Near-Field Communication (NFC), a wireless connectivity technology that allows phones with embedded NFC chips to make payments when "waved" near an in-store terminal. Nokia, the world's biggest mobile-phone maker, has committed itself to producing NFC-equipped devices, as has Research In Motion, maker of the BlackBerry. Google's Nexus S phone also has an NFC chip in it. If America gets behind NFC as a standard it will boost its chances of being used elsewhere. In Britain Orange recently unveiled a mobile-payment system using an NFC-equipped Samsung phone.

Critics of NFC technology argue that waving a phone around in front of a terminal hardly feels like an efficient and secure way to pay for something. Vincent Kadar, the boss of Telepin Software, a Canadian maker of software that supports mobile transactions, says that NFC should stand for "Not For Commerce". NFC's supporters claim that phones are at least as secure as cards and can be remotely "wiped" if they are lost.

Store chains are keeping an open mind about which contactless-payment technologies to support. "Retailers are kind of sitting on the fence right now," explains Richard Mader of the National Retail Federation. (A few, such as Starbucks, are using proprietary mobile-payment systems based on their own smartphone apps.) In particular, they want to see which systems shave the most off the $49 billion-worth of transaction fees Mr Mader says they paid to card companies last year.

Banks and credit-card companies are confident that, whatever technology ultimately wins, their brands will help them prevail over the start-ups. They also think that more mobile payments will boost overall spending. "People's phones are closer to their hands than their wallets most of the time," notes Bill Gajda of Visa.

Tills phones us do part

Yet moneymen are still hedging their bets. Visa, for instance, has taken a stake in Square so the card firm can both learn from the start-up and shape the way it evolves, explains Mr Gajda. Tech firms are also reaching out to financial ones. ISIS, a joint venture involving AT&T and Verizon Wireless, two telecom behemoths, was originally conceived as a rival payment network to Visa and MasterCard. Earlier this year it suddenly changed tack and became an open platform on which other firms can build digital-wallet offerings.

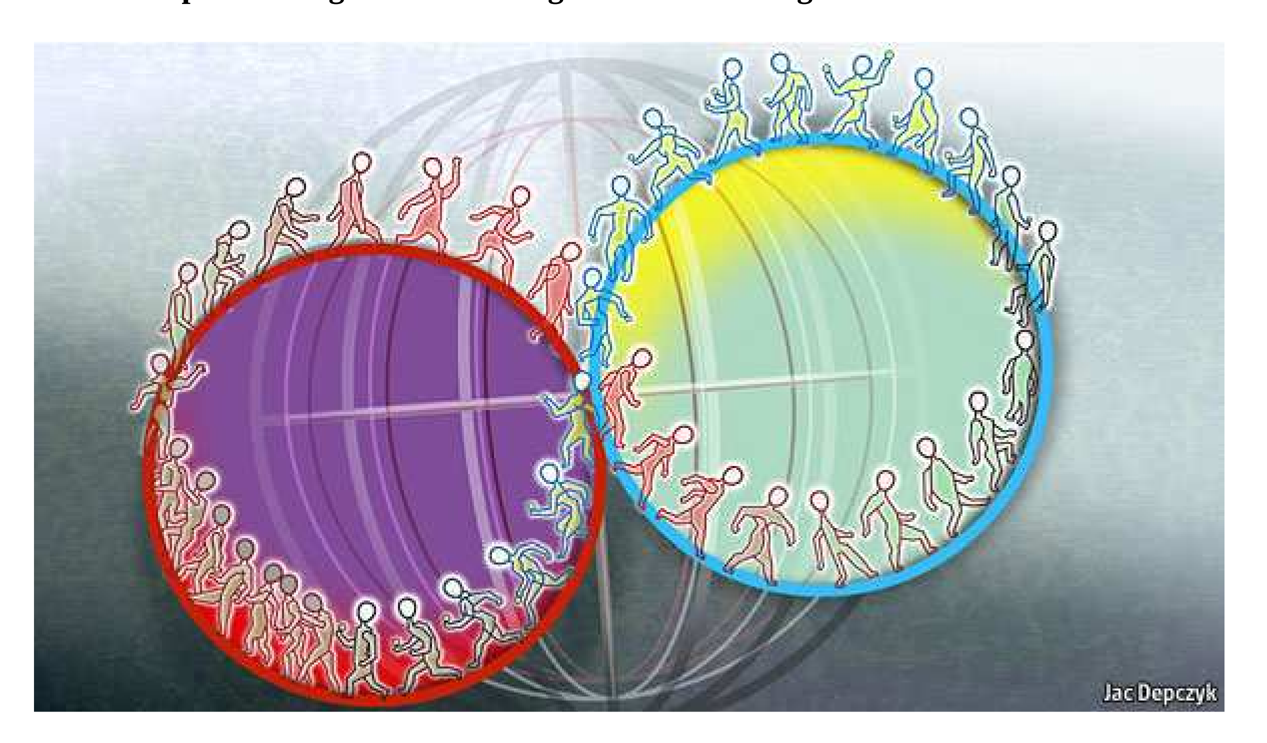
Some experts wonder out loud whether Apple will install NFC in its future phones or come up with its own mobile-payments technology. It already has many millions of debit and credit cards on file for its iTunes online music store and a network of stores that could be used as a testing ground for a new mobile-payments service. At Square's product launch this week, Mr Dorsey said his firm's goal was to make paying for a cup of coffee as easy as buying a song from iTunes. Steve Jobs, Apple's boss, may well have a similar ambition.

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Economics focus

Drain or gain?

Poor countries can end up benefiting when their brightest citizens emigrate



WHEN people in rich countries worry about migration, they tend to think of low-paid incomers who compete for jobs as construction workers, dishwashers or farmhands. When people in developing countries worry about migration, they are usually concerned at the prospect of their best and brightest decamping to Silicon Valley or to hospitals and universities in

the developed world. These are the kind of workers that countries like Britain, Canada and Australia try to attract by using immigration rules that privilege college graduates.

Lots of studies have found that well-educated people from developing countries are particularly likely to emigrate. By some estimates, two-thirds of highly educated Cape Verdeans live outside the country. A big survey of Indian households carried out in 2004 asked about family members who had moved abroad. It found that nearly 40% of emigrants had more than a high-school education, compared with around 3.3% of all Indians over the age of 25. This "brain drain" has long bothered policymakers in poor countries. They fear that it hurts their economies, depriving them of much-needed skilled workers who could have taught at their universities, worked in their hospitals and come up with clever new products for their factories to make.

Many now take issue with this view (see article). Several economists reckon that the brain-drain hypothesis fails to account for the effects of remittances, for the beneficial effects of returning migrants, and for the possibility that being able to migrate to greener pastures induces people to get more education. Some argue that once these factors are taken into account, an exodus of highly skilled people could turn out to be a net benefit to the countries they leave. Recent studies of migration from countries as far apart as Ghana, Fiji, India and Romania have found support for this "brain gain" idea.

The most obvious way in which migrants repay their homelands is through remittances. Workers from developing countries remitted a total of $325 billion in 2010, according to the World Bank. In Lebanon, Lesotho, Nepal, Tajikistan and a few other places, remittances are more than 20% of GDP. A skilled migrant may earn several multiples of what his income would have been had he stayed at home. A study of Romanian migrants to America found that the average emigrant earned almost $12,000 a year more in America than he would have done in his native land, a huge premium for someone from a country where income per person is around $7,500 (at market exchange rates).

It is true that many skilled migrants have been educated and trained partly at the expense of their (often cash-strapped) governments. Some argue that poor countries should therefore rethink how much they spend on higher education. Indians, for example, often debate whether their government should continue to subsidise the Indian Institutes of Technology (IITs), its elite engineering schools, when large numbers of IIT graduates end up in Silicon Valley or on Wall Street. But a new study of remittances sent home by Ghanaian migrants suggests that on average they transfer enough over their working lives to cover the amount spent on educating them several times over. The study finds that once remittances are taken into account, the cost of education would have to be 5.6 times the official figure to make it a losing proposition for Ghana.

There are more subtle ways in which the departure of some skilled people may aid poorer countries. Some emigrants would have been jobless had they stayed. Studies have found that unemployment rates among young people with college degrees in countries like Morocco and Tunisia are several multiples of those among the poorly educated, perhaps because graduates are more demanding. Migration may lead to a more productive pairing of people's skills and jobs. Some of the benefits of this improved match then flow back to the migrant's home country, most directly via remittances.

The possibility of emigration may even have beneficial effects on those who choose to stay, by giving people in poor countries an incentive to invest in education. A study of Cape Verdeans finds that an increase of ten percentage points in young people's perceived probability of emigrating raises the probability of their completing secondary school by around eight points. Another study looks at Fiji. A series of coups beginning in 1987 was seen by Fijians of Indian origin as permanently harming their prospects in the country by limiting their share of government jobs and political power. This set off a wave of emigration. Yet young Indians in Fiji became more likely to go to university even as the outlook at home dimmed, in part because Australia, Canada and New Zealand, three of the top destinations for Fijians, put more emphasis on attracting skilled migrants. Since some of those who got more education ended up staying, the skill levels of the resident Fijian population soared.

Passport to riches

Migrants can also affect their home country directly. In a recent book about the Indian diaspora, Devesh Kapur of the University of Pennsylvania argues that Indians in Silicon Valley helped shape the regulatory structure for India's home-grown venture-capital industry. He also argues that these people helped Indian software companies break into the American market by vouching for their quality. Finally, migrants may return home, often with skills that would have been hard to pick up had they never gone abroad. The study of Romanian migrants found that returnees earned an average of 12-14% more than similar people who had stayed at home. Letting educated people go where they want looks like the brainy option.

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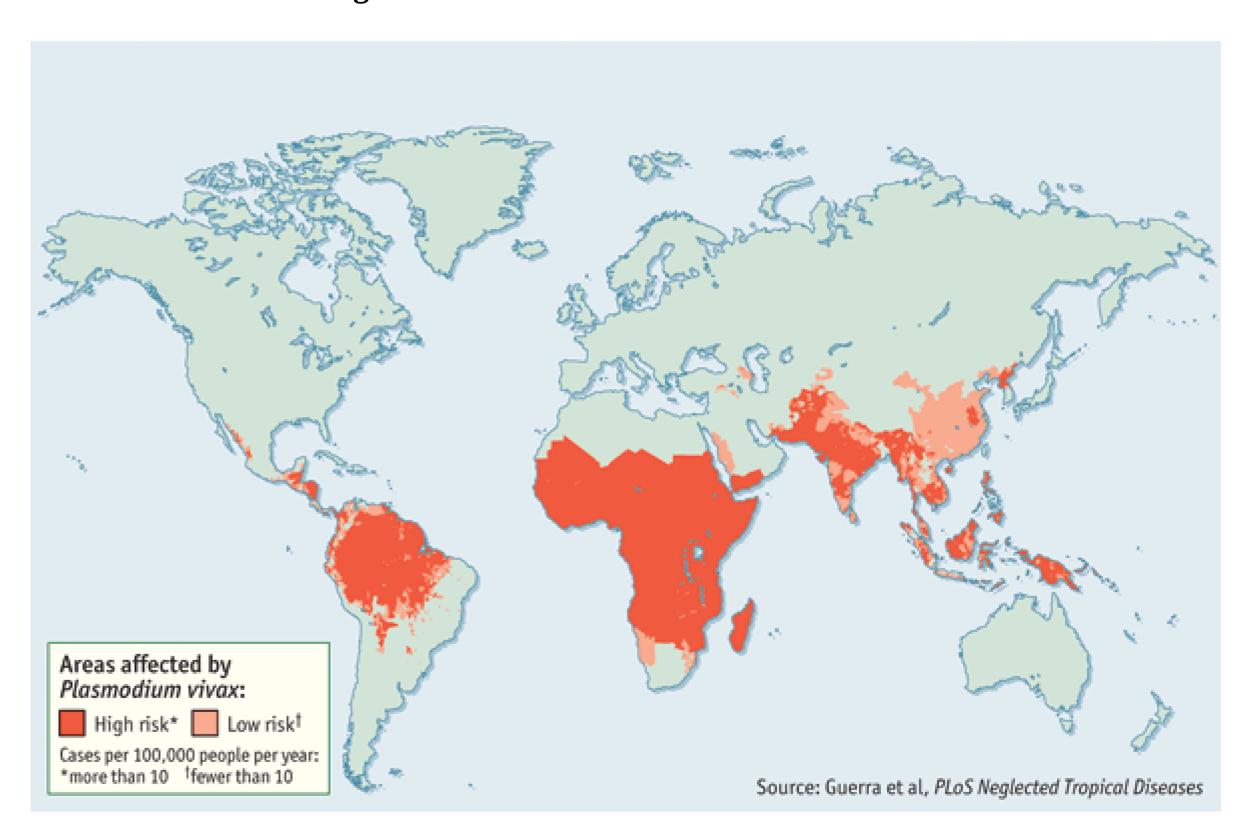
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Plasmodium vivax

The other malaria

Many people think of malaria as a single disease. It isn't



"WHEN is a disease not a disease?" sounds like a childhood riddle. One answer, though, might be, "when it is *vivax* malaria." No one could accuse the global medical establishment of ignoring malaria. There is, indeed, an entire international organisation, the Global Fund to Fight AIDS, Tuberculosis and Malaria, that is explicitly aimed at getting rid of it. Yet malaria comes in several versions, two of which are widespread. They are caused by related parasites, *Plasmodium falciparum* and *Plasmodium vivax*. They are both transmitted by *Anopheles* mosquitoes. And many actions, such as draining swamps where mosquitoes breed, and many drugs, such as artemisinin, work against both. But that does not mean the diseases are identical. In practice, most of the world's antimalarial effort is directed against *falciparum*. Those who study *vivax* sometimes feel that the object of their attention is invisible.

In the past, the focus on *falciparum* made sense. Money was tight. *Falciparum* kills 1m people a year, most of them children. *Vivax* often debilitates, but rarely kills. Now, though, health has moved up the international agenda, and the supply of money to deal with it has increased over the past decade as politicians and aid agencies have come to understand that infectious diseases are not merely causes of suffering and death-though that is bad enough-but are significant barriers to economic development, too. In this context a more sophisticated approach is needed, in the view of those who study *vivax*.

Numbers are hard to come by, but Ric Price, of Oxford University, reckons that between 80m and 390m people suffer the effects of *vivax* every year. The cost, to the sufferers alone, is between $1.4 billion and $4 billion a year-and that does not take account of consequential damage to the economies of the countries they live in. These include places like Central Asia and the Caucasus, where *falciparum* is unknown-for, unlike *falciparum*, which is genuinely a tropical disease, *vivax* can thrive in temperate climes. Indeed, in the first half of the 20th century it was found as far north as Archangel, in Russia.

Vivax regina?

A big part of the problem is knowing just how many people really are infected. Figures like Dr Price's are based on confirmed diagnoses. Some researchers think the true numbers are much larger. The disease can be identified definitively only by putting blood smears under a microscope. Even then, the invaders are hard to detect. Unlike *falciparum*, *vivax* infects only the youngest red blood cells, those freshly emerged from bone marrow. As Lee Hall, chief of parasitology and international programmes at America's National Institute of Allergy and Infectious Diseases, observes, you rarely get a blood smear with hundreds of parasites obvious in it. You have to hunt for them. That is, assuming a skilled technician with a microscope is on hand to do the hunting-not a safe assumption, given where most of those infected with malaria live. Millions of cases may therefore go undiagnosed.

That matters, because the diseases really are not the same. Comparing *vivax* and *falciparum* is a bit like comparing a monkey and an ape, according to Daniel Hartl, a population geneticist at Harvard University. To the man in the street, the two look pretty similar. To a zoologist, they are strikingly different. The parasites evolved, for example, in separate hosts. *Falciparum* was confined to apes for many millions of years and jumped, in Africa, from gorillas into humans some time in the past 300,000 years. *Vivax* is related to monkey parasites and probably originated in South-East Asia. That means the species have different biochemistries. Not all drugs that work on *falciparum* also work on *vivax*. For example, only primaquine can kill *vivax* once it has entered the liver.

The two parasites also piggyback from host to host on different species of *Anopheles*. Distributing bednets and spraying insecticide on the walls of houses-strategies that have worked against *falciparum*-are much less use against *vivax* because the 40-odd mosquito species which transmit it do much of their biting outdoors.

The parasites also have different effects. Though *falciparum* is far deadlier than *vivax*, it is cleared from the body in a few weeks. *Vivax*, by contrast, hides in the liver. An individual infected with it may remain symptomless for several years and then relapse. And the fevers, chills and paroxysms such relapses create are so intense that malariologists have a saying: the disease may not kill you, but you'll wish you were dead. Severe or repeated bouts can lead to respiratory distress, mental disability, wasting disease and, at the extreme, rupture of the spleen. Moreover, those carrying dormant *vivax* parasites in this way cannot be identified, which means there is a huge reservoir of infected people who are in effect invisible.

That is not a bad strategy for a pathogen. Killing the host is terminal for the parasite as well as the person. Becoming dormant means you live to fight another day. It has also, in the jargon of evolutionary biology, pre-adapted *vivax* to a threat it has not evolved to deal with. The main selective force acting against *falciparum* at the moment is the efforts of global health agencies. As Jane Carlton, who studies *vivax*'s genomics at New York University, observes, "to be blunt, *vivax* doesn't kill children in Africa, so it's low on the funders' priority list."

And not just funders. Dr Carlton and her colleagues recently submitted a paper on *vivax* to *PLoS Neglected Tropical Diseases*, an online journal published by the Public Library of Science. She thought the pathogen fitted all the journal's criteria for publication. It is chronic, infectious, a plague on both rural and urban poor, and, in her view at least, neglected. But the journal felt malaria, regardless of type, was "already sucking up too much attention," she says. "They didn't want any malaria papers at all. We really had to work hard to persuade the editorial board that *vivax* is a very different thing."

They succeeded. *PLoS* did ultimately accept the paper and will publish it next month. Last year, too, it published a map (reproduced at the beginning of this article) of the distribution of *vivax*, independently of *falciparum*. Maybe soon, then, the riddle will have a different answer, as the world pays more attention to this invisible, horrible disease.

Educational psychology

Now you know

When should you teach children, and when should you let them explore?



It went zip when it moved and bop when it stopped and whirrrr when it stood still

IT IS one of the oldest debates in education. Should teachers tell pupils the way things are or encourage them to find out for themselves? Telling children "truths" about the world helps them learn those facts more quickly. Yet the efficient learning of specific facts may lead to the assumption that when the adult has finished teaching, there is nothing further to learn-because if there were, the adult would have said so. A study just published in *Cognition* by Elizabeth Bonawitz of the University of California, Berkeley, and Patrick Shafto of the University of Louisville, in Kentucky, suggests that is true.

Dr Bonawitz and Dr Shafto arranged for 85 four- and five-year-olds to be presented, during a visit to a museum, with a novel toy that looked like a tangle of coloured pipes and was capable of doing many different things. They wanted to know whether the way the children played with the toy depended on how they were instructed by the adult who gave it to them.

One group of children had a strictly pedagogical introduction. The experimenter said "Look at my toy! This is my toy. I'm going to show you how my toy works." She then pulled a yellow tube out of a purple tube, creating a squeaking sound. Following this, she said, "Wow, see that? This is how my toy works!" and then demonstrated the effect again.

With a second group of children, the experimenter acted differently. She interrupted herself after demonstrating the squeak by saying she had to go and write something down, thus suggesting that she might not have finished the demonstration. With a third group, she activated the squeak as if by accident. To a fourth, the toy was simply presented with the comment, "Wow, see this toy? Look at this!"

After these varied introductions, the children were left with the toy and allowed to play. They might discover that, as well as the squeaker, the toy had a button inside one tube which activated a light, a keypad that played musical notes, and an inverting mirror inside one of the tubes. All the children were told to let the experimenter know when they had finished playing and were asked by the instructor if they were done if they stopped playing for more than five consecutive seconds. The entire interaction was recorded on video.

Footage of each child playing was passed to a research assistant who was ignorant of the purpose of the study. The assistant was asked to record the total playing time, the number of different actions the child performed, the time spent playing with the squeak, and the number of other functions the child discovered.

The upshot was that children in the first group spent less time playing (119 seconds) than those in the second (180 seconds), the third (133 seconds) or the fourth (206 seconds). Those in the first group also tried out four different actions, on average. The others tried 5.3, 5.9 and 6.2, respectively. A similar pattern (0.7, 1.3, 1.2 and 1.2) pertained to the number of functions other than the squeak that the children found.

The researchers' conclusion was that, in the context of strange toys of unknown function, prior explanation does, indeed, inhibit exploration and discovery. Generalising from that would be ambitious. But it suggests that further research might be quite a good idea.

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Stellar evolution

Slowing down in old age

A new way to measure the age of stars

TWO years into its mission, NASA's planet-hunting *Kepler* space telescope has been a big success. With just four months of data, astronomers have found evidence for more than 1,200 planets circling stars other than the sun. That haul has more than doubled the number known, and suggests such planets are common. One estimate, extrapolating from *Kepler*'s data, is that there are as many as 50 billion planets in the Milky Way alone.

But *Kepler*-which detects its quarry by noting the minuscule dimming of starlight that occurs when a planet crosses in front of its parent star-can be used for other things, too. In a paper presented on May 23rd to the annual meeting of the American Astronomical Society, in Boston, a team led by Soren Meibom of Harvard University used data gathered by the telescope to give astronomers a better idea of how old the stars they study are.

At the moment, getting an accurate idea of stellar age is possible only in unusual circumstances-specifically, if a star is part of a cluster whose members formed from the same cloud of gas. The bigger a star is, the more rapidly it burns up its fuel, and the quicker it becomes a bloated red giant. Since all the stars in a cluster are roughly the same age it is possible, by looking at the masses of stars that have made it to the red giant stage, to calculate the age of the cluster and, consequently, of all its members.

Astronomers who study star clusters have noticed that the speed at which a star of a given mass spins (measured by tracking cool, dark spots on the surface) also seems to vary predictably with age. Young stars spin more quickly than old ones. If that relationship could be firmed up, it would offer a way to measure the age of isolated stars that are not part of clusters-a group that includes almost all the stars currently believed to host planets.

That is easier said than done. The number of spots falls as a star ages. Combined with the difficulties of Earth-based astronomy, which requires that researchers peer through the murk of the atmosphere, that makes it hard to measure the spins of stars older than about 600m years-a tenth, or less, of the lifetime of a long-lived star. The only data point available for such multi-billion-year-old stars is a particular yellow dwarf in the Orion arm of the Milky Way. This star, which formed around 4.6 billion years ago and takes 26 days to complete one revolution, will be familiar to readers every sunrise.

But *Kepler* is good at finding spots on stars. It can distinguish them from planets because they are visible for half the time as a star rotates (a planet, by contrast, produces a short dip in stellar illumination). And thanks to its vantage point in space, the craft's telescope can obtain much clearer images than Earth-based instruments. Dr Meibom's paper (to be published soon in *Astronomical Journal Letters*) looked at a cluster of stars that is roughly a billion years old, and found that the relationship between age and spin-speed was still tight.

In itself, that is but a small advance. Dr Meibom and his team are, however, in the process of studying a second cluster. This one is 2.5 billion years old. Further clusters within *Kepler*'s field of view are older still, so it should soon be clear whether the relationship continues to hold. If it does, that would have important implications for *Kepler*'s main mission, which is to search for Earthlike planets. After all, one important feature of the Earth is its age, which has given time for complex life to evolve on its surface. For a planet to be truly Earthlike, how long it has been around might be one of its most important features.

Forest conservation

Lidartector

How to tell if countries are cheating on their conservation commitments



The wood and the trees

IN AN isolated forest in the Sivalik hills of south-western Nepal, intense sun beats down through the treetops. A sweaty trek up a steep, rocky slope leads to a spot where a team of researchers is busy measuring the trees.

They are working for Forest Resource Assessment Nepal, a joint venture between the Nepalese and Finnish governments. Two global-positioning-system devices guide the researchers to their target. Once there, they use tape measures, callipers and a hand-held laser to measure the heights and girths of all the trees within a 500-square-metre plot. These measurements, and each tree's species, are recorded on a clipboard. One plot finished; 959 more to go.

A classic piece of forestry, then. Boots on the ground. Specimens duly counted. But this is a study with a twist, for its purpose is to calibrate a new approach to the subject-one that will gather information by the bucketload without the need to rely on quite so many boots. This new approach uses a technique called lidar.

Like its cousins radar and sonar, lidar (light detection and ranging), works by broadcasting electromagnetic waves towards a target and then building up a picture from the reflection. In the case of lidar, the waves are in the form of an infra-red laser beam. And in the case of the forests of south-western Nepal, the target is the trees. During a forest survey, an aircraft-borne lidar sweeps a beam that fires about 70,000 pulses a second over the canopy. A sensor on the aircraft records the time it takes to receive the backscattering of pulses, and that is used to compute distances to the forest canopy and to the soil beneath.

The result, when processed through the computers of Arbonaut, a Finnish natural-resource-management company, is a three-dimensional image of the forest that can be correlated with, and calibrated by, the efforts of the chaps with the tape measures. And that, in turn, can be used to estimate the amount of carbon stored in the plot examined, and extrapolated to calculate the carbon stored in larger areas of forest that have been scanned by lidar, but not measured with tapes.

The point of the project, which should be completed by 2014, is to allow Nepal to participate in international carbon-trading schemes that pay poor countries with lots of trees not to cut them down. The Reducing Emissions from Deforestation and Forest Degradation (REDD) scheme agreed at the United Nations' climate-change conference in Cancun last December may eventually be worth $30 billion a year. Nepal wants a slice of that. Lidar monitoring may provide a way of making sure it is delivering on its side of the bargain.

Until a few years ago, assessing the amount of plant matter in a forest in a cheap and accurate manner seemed an insurmountable problem, according to Eric Dinerstein, chief scientist of the World Wide Fund for Nature, a conservation group that is also involved in the Nepalese lidar project. Although a woodland's area can be worked out from satellite photographs, that gives only a hazy idea of the mass of the plants growing there.

If Forest Resource Assessment Nepal and projects like it are successful, that will change. It will then be possible, with reasonable confidence, to pay REDD money out only to those countries that deliver the goods-or, rather, the trees-in sufficient, measurable quantities.

Migration

The future of mobility

Few things will affect our future more than migration. A new book provides one of the best analyses of its costs and benefits

Exceptional People: How Migration Shaped Our World and Will Define Our Future. By Ian Goldin, Geoffrey Cameron and Meera Balarajan. *Princeton University Press; 352 pages; $35 and pound24.95.* Buy from Amazon.com, Amazon.co.uk



WHEN a Bangladeshi man goes to work on a construction site in the Middle East, his wife typically moves in with her husband's family. Not all wives enjoy this. They sweat in a strange kitchen, take care of a bossy mother-in-law and see

their husbands only for a few weeks each year. And although their husbands send home plenty of money, they often send it to their parents, not their wives. Migration creates losers as well as winners.

But the gains vastly outweigh the losses, as Ian Goldin, Geoffrey Cameron and Meera Balarajan make plain in their new book, "Exceptional People". If rich countries were to admit enough migrants from poor countries to expand their own labour forces by a mere 3%, the world would be richer, according to one estimate, by $356 billion a year. Completely opening borders would add an astonishing $39 trillion over 25 years to the global economy. That is more than 500 times the amount the rich world spends on foreign aid each year. Migration is the most effective tool yet devised for reducing global poverty.

The same worker can earn 15 times as much if he or she moves from say, Yemen to the United States. The wage gap between rich and poor countries is far wider than it was a century ago, during the great age of migration from Europe to America. And the emotional costs of leaving home, though still hefty, are much lighter than they were. A 19th-century Russian emigrant might never see or speak to his family again. A 21st-century migrant can Skype them in the taxi from the airport.

Small wonder that the number of international migrants has doubled in the past quarter-century, to more than 200m. Increasing mobility combined with cheaper communications means that in the future, "the global community is becoming connected in a manner not experienced since our small-world evolutionary origins in Africa." This is a fascinating point, which the authors could have pursued further than they do.

Overall, however, this is a book of bold ambitions ably fulfilled. Mr Goldin and his co-authors offer a history of migration, from man's earliest wanderings in Africa to the present day. Thanks to modern techniques for decoding genetic evidence, far more is known today about the great movements of prehistory than was suspected even a decade ago. Genetic tests are now so cheap that Mr Goldin can draw us a map of how his own ancestors moved from east Africa 31,000 years ago, across Arabia and through Central Asia before swinging back into northern Europe.

After filling in the historical background, the authors give a rigorous but readable guide to the costs and benefits of modern migration. Poor countries may suffer when they lose their best brains to the West: 43% of Liberian doctors, for example, now work in North America. But the prospect of migrating spurs people in poor countries to acquire marketable skills. Some then decide not to migrate after all. Others spend several years abroad but then return home with new skills, new contacts and a pot of savings to invest. Overall, the brain drain actually helps poor countries. And of course, it benefits the migrants themselves. If it did not, they would not leave home.

Immigration is unpopular in rich countries because people overestimate its costs and underestimate its benefits. An influx of unskilled migrants may drag down the wages of unskilled natives, but this effect is "very small at most, and may be irrelevant", according to a number of different studies. Migrants often create employment for natives. Indian entrepreneurs in San Francisco create new technology firms. Mexican nannies hold babies while American mothers go out to work. Migrants come when their services are wanted and stay away when they are not. Through the migrant grapevine, they know that jobs are drying up several months before government statisticians notice.

"Exceptional People" is packed with surprising insights. The authors knock down wild predictions that climate change will create 200m refugees by mid-century. Global warming may cause more frequent floods, but most flood victims go home when the waters recede. The authors cite as evidence the deluges that hit Mozambique in 2000 and America's Gulf Coast in 2005. This reviewer, who saw both disasters up close, was struck by the sheer determination of the displaced to return.

The next big wave of migration will come from Africa. Today, most Africans are too poor to move far. A typical Congolese peasant cannot afford the boat fare to Kinshasa, let alone Belgium. But as the continent becomes less poor, more and more Africans will acquire the means to migrate.

More generally, the authors predict a future of labour shortages in rich countries which only migration can solve. As Europe and America age, they will need more young and energetic nurses, care assistants, housekeepers and cleaners. Robots cannot do everything, even in Japan. The demand for highly skilled workers will grow too, and countries will start to compete more fiercely for mobile talent. Migration will "define our future", the authors say. They are probably right.

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The jostling Johnstones

Retracing the steps of one 18th-century Scottish family

The Inner Life of Empires: An Eighteenth-Century History. By Emma Rothschild. *Princeton University Press; 462 pages; $35 and pound24.95.* Buy from Amazon.com, Amazon.co.uk



EMMA ROTHSCHILD is an historian of the mind, of characteristic ways of thinking and feeling. She aims to blindfold hindsight and to recover not just external events but the way people perceived them at the time. The difficulty is evidence. Most people leave no trace. Even the eminent, she says, show little sign of the inner consequences of outward affairs. As if in answer, her absorbing new book, "The Inner Life of Empires", overflows with evidence-so finely detailed and from such scattered sources as to be scarcely imaginable before the development of digitised, searchable catalogues and archives.

It is based on an extraordinary find: the papers of the Johnstones, an 18th-century Scottish family of seven brothers and four sisters, who left letters, diaries, legal submissions, deeds, to-do lists, inventories, mortgages, wills, codicils and more. The Johnstones were information addicts, interested in everything-in how Indians made stucco, what lime did to oat crops, how Persian prepositions worked. They believed in Benevolence, Justice and Humanity. Some were friends of Enlightenment philosophers such as David Hume, Adam Smith, Adam Ferguson and other figures. Four of them became members of Parliament, as ready with resonant abstractions as the philosophers themselves.

None of them was eminent. Their forebears were small-time professionals, provincial lawyers, factors or land agents, a surgeon, a chaplain, even an archbishop. But their father's estate in the bleak Scottish borders was ridden with debt. The only hope for the younger Johnstones of Westerhall lay in getting away.

And they did, or most of them did. The first was born in 1723 and the last died in 1813-a period of emerging empires, generating enough war, revolution and trade to absorb any number of precarious Scots. The army, navy and the East India Company were the main routes out, with the brothers and sometimes their wives and partners covering huge distances. Brother George was governor for a time of West Florida and in 1778 a peace commissioner to the United States. John was expert in Persian and Bengali and administered a province in West Bengal. Alexander was a colonel in Grenada where, with loans from brothers John and William (the family was a mini-enterprise in itself), he bought a slave plantation and called it Westerhall.

Even the women who stayed could be said to have left in imagination, hungry for news of war and promotion, relaying information and waiting-if only for a parcel of refined sugar or Indian muslin. Only William made his money without

moving, marrying an heiress and becoming seriously richer, partly through slave plantations of his own. There is enough here to fill several novels-even without their black-eyed sister, Margaret, who joined the Jacobite rebellion of 1745, was imprisoned and escaped to France in disguise.

But, as Ms Rothschild insists, this is a history, not a novel. She does not attempt to "know" the Johnstones in the novelist's sense. They are a set of perspectives, small spy-holes onto big vistas. What strikes the author most is the uncertainty and flux of their lives as they and their circle improvised their way through the confusion of French, Spanish and British jurisdictions in the West Indies and America, and through the creeping, morphing status of the British in India. They floated between categories as they floated across the world, blurring public service with private trading, soldiering with freelancing, their interests distributed east and west with no sense that the future lay anywhere in particular. The East India Company was a microcosm of this uncertainty-half military, half commercial, a state within a state. "What is the state?" asked one. What was meant by words like "civil"? Was "empire" itself a matter of land and settlement or, as he thought, of ports and islands and trading opportunities? Could it even be said to exist? The British empire in India was merely "an empire of opinion", thought another, founded on the unwillingness of "the natives to reflect upon their own strength".

Running through the whole story is slavery. Six of the brothers owned slaves. Three were plantation owners; one married into a Liverpool slave-trading business. Two of these same brothers, John and James, were abolitionists. William was a parliamentary opponent of William Wilberforce, a leading abolitionist. Through the stories of two slaves, Ms Rothschild focuses in very close-especially through Bell or Belinda who lived in John's family, travelled from Bengal to London and Scotland, and while the Johnstones were away had a baby alone in her mistress's bedroom. Two days later it was found in the river, wrapped in a cloth. Bell was charged with murder, found guilty and sold into slavery in Virginia. Nothing more is known of her. In a moving passage, Ms Rothschild describes her hunt for something, anything, in John's letters about her. Nothing at all-his inner life, on her account at any rate, a blank.

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Conspiracy theories in America

One born every minute

A plot that involves thousands

Among the Truthers: A Journey Through America's Growing Conspiracist Underground. By Jonathan Kay. *Harper; 368 pages; $27.99.* Buy from Amazon.com

AMERICA is a country of 310m people for whom free speech is a founding principle. So it should be no surprise that it is inhabited by a large number of individuals with some pretty strange views. Thanks to local radio and the internet, they are able to disseminate them to many others rather than just muttering away to themselves. Jonathan Kay, an editor and columnist at Canada's *National Post*, has chosen to shine a spotlight on one particular group of them; the "truthers", who believe that when America was attacked on September 11th 2001 the American government was in the know, or even staged the whole thing in order (take your pick) to impose draconian social controls in the name of national security or to occupy the oilfields of the Gulf.

Americans, of course, have no monopoly on eccentric views. One of the looniest is David Icke, an Englishman who believes that the world is secretly run by a group of shape-shifting intergalactic lizards. Nor is there any sign that the truthers are gaining much ground: in fact, they are puny in number compared with those who follow another nutty conspiracy theory, namely the "birthers", who believe that Barack Obama was born outside the United States and is therefore, they hold, ineligible to be president. A significant minority of Republicans, according to opinion polls, hold this view. Birthers, however, are not even mentioned in Mr Kay's book.

A conspiracy theorist, no doubt, would say that the *National Post* is a paper of the political right, and therefore less likely to worry about the birthers than the truthers, who tend to be on the left. A more plausible reason is that the birther conspiracy is rather a small one, not involving many people beyond Mr Obama's deceased mother and one or two corrupt (or treacherous?) Hawaii officials.

The truther conspiracy, by contrast, involves a cast of thousands: from George W. Bush and Dick Cheney down through much of the CIA and the demolition teams that planted the explosives that brought the twin towers down and the teams of actors who faked the voices of passengers on board the doomed flights, since the hijackings actually never happened.

And this is what makes Mr Kay's book enjoyable. He does a fine job of locating the truther movement in the perennial discontent with authority that pervades American (and wider Western) history, showing the psychological links between truthers and those who in earlier days were preoccupied by secret conspiracies of such diverse foes as masons, illuminati, communists and Jews.

The idea that some shadowy group or other is running things for their own benefit, not that of the ordinary working man, is, after all, the constant solace of the unsuccessful. And a national disaster such as Pearl Harbour, the assassination of President Kennedy or the September 11th attacks, he plausibly notes, is likely to call forth particularly wild conspiracy theories, since the alternative explanations, of incompetence or inherent vulnerability, are simply too painful to bear.

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The history of spin bowling

Cricket's revolutionaries

A wily and mysterious art

Twirlymen: The Unlikely History of Cricket's Greatest Spin Bowlers. By Amol Rajan. *Yellow Jersey Press; 400 pages; pound16.99.* Buy from Amazon.co.uk

FAST bowlers are cricket's showmen, eliciting gasps as they hurl down deliveries capable of snapping batsmen's ribs. But the game's most successful bowlers are its spinners. Appreciation of the spin bowler's art separates the cerebral fan from the bloodthirsty. Where fast bowlers are described as fearsome and snarling, spin bowlers attract adjectives such as wily or mysterious.

Or fat. This is a point to which Amol Rajan often returns in "Twirlymen", a wonderful book tracing the history of spin bowling. Spinners need a contortionist's fingers, not the athleticism of a fast bowler, which is why it has thrown up some unlikely heroes. F.W. Lillywhite, an early pioneer, for example, "couldn't get his underarm past his belly". Other misfits fill the book's pages. Muttiah Muralitharan, a Sri Lankan whose 800 Test wickets may never be exceeded, imparts fizz on the ball, in part, due to a congenital arm defect. Bhagwat Chandrasekhar gained extra whip thanks to an elbow withered by childhood polio.

Spin bowlers are the game's revolutionaries. Even their mysterious lexicon-googlies, Chinamen, flippers, doosras-suggests constant innovation. When the googly was first unleashed at the end of the 19th century, batsmen huffed that it wasn't in the spirit of the game because they couldn't tell which way the ball was about to spin.

As much as spinners have changed the game, the game has also changed them. Some ancient styles have died out. Sydney Barnes, who played for England from 1901, and is considered by Mr Rajan the most complete bowler of all time, was a spinner who bowled at medium pace, thought impossible today. Indeed, until recently many thought that all spin bowling was heading toward extinction. Covered wickets and short boundaries had turned them into batsmen's fodder. But then came Shane Warne, who spun the ball so viciously that he could pitch the ball outside leg stump and hit off. Today, Ajantha Mendis is perplexing batsmen with his "carrom" ball, which requires mind-boggling digital strength. Thank heavens. Cricket is more fascinating for their flourishing.

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Palestinians in Israel

There may be trouble ahead

How to find a fairer solution

The Forgotten Palestinians: A History of the Palestinians in Israel. By Ilan Pappe. *Yale University Press; 320 pages; $30 and pound18.99.* Buy from Amazon.com, Amazon.co.uk

Israel's Palestinians: The Conflict Within. By Ilan Peleg and Dov Waxman. *Cambridge University Press; 280 pages; $85 and pound50.* Buy from Amazon.com, Amazon.co.uk



TWO states, one Jewish, one Palestinian, living peacefully side by side is the peacemakers' hope. But one of the many perplexities about this ideal is that about 20% of the population of the Jewish state would be Palestinian. Though relations between Israel's Palestinian minority and the Jewish majority present a surface calm, the former is marked by alienation and a sense of discrimination, whereas the Jewish side is increasingly alarmed that their state may be harbouring a demographic time bomb.

The 160,000 Palestinians who survived the 1948 war and stayed in what became Israel in order to remain close to their ancestral homes now number 1.3m. Long marginalised as a rather stranded little community, they have seldom received much international attention compared with the 4.1m Palestinians who live in the occupied territories. Now two books about them have appeared simultaneously, complementing one another. The first, by Ilan Pappe, is an authoritative history of the group's 60 years or so of existence; the second, by Ilan Peleg and Dov Waxman, is an analytical study that includes radical proposals for turning Israel into a state for all its citizens while still preserving its special Jewish identity.

Mr Pappe is a Jewish Israeli historian who writes that his empathy for the Palestinians led to him being so ostracised in his own country that he chose to leave and now teaches in Britain. In his book he shows how Israeli policy towards its own Palestinians was formulated in the early years under David Ben-Gurion. The rulers of the new state dearly wished to be rid of their non-Jews. Since this was not politically possible, they tried, without success, to encourage their departure by restricting job opportunities and squeezing living space (though 20% of the population, the Arabs own only about 3% of the land).

Mr Pappe traces the community's progress from the first cruel years of military rule and ghettoisation, through bad times and more enlightened ones to the present day when Israel's hard-right parties search ever more openly for ways to slow down the growth of what many consider the enemy within, including proposals for a land-and-population transfer between Israel and the West Bank. He explores the rights given the Palestinians under Israeli law-and the subtle and not-so-subtle ways in which these rights have been sidestepped. At the same time he does not ignore the positive sides to life in Israel, a life that has provided Palestinians with health care, education and votes, given women more independence and, from the start, included Arab Israelis as elected members of the Knesset.

Mr Pappe also describes the Palestinians' growing self-assertiveness, their cultural flowering in films, novels and poems, and their invented Hebrew-Arabic language, Arabrabiya. Opinion polls show that, despite the strong kinship that Palestinians in Israel feel for Palestinians outside, few would voluntarily join a Palestinian state if one were formed. They want a fairer home for themselves in Israel, not to take off for a poorer Arab alternative.

The Palestinians in Israel compare their condition not with Arabs outside but with their Jewish fellow-citizens. Mr Peleg and Mr Waxman, both professors at American universities, provide the socioeconomic evidence to show just how badly the Palestinians fare compared with Jewish Israelis. In summary, the Palestinians "suffer from numerous inequities, tacit discrimination, government neglect and social prejudice. They are largely excluded from the country's public life, they have not been integrated socially or economically, and they are generally treated with suspicion by the state and by Israeli Jewish society. As such, collectively, Arabs are very much second-class citizens in Israel."

The authors go on. The rift between Jewish and Arab Israelis, always wide, is growing dangerous. Though there is no evidence that the general Palestinian mood is becoming violent, they discern a distinct rise in radicalism. Liberal-minded Jewish Israelis are broadly accommodating and supportive, but many right-wing Israelis are discomfited by estimates that by 2050 about one-third of the country's population will be Arab.

To continue along present lines, the two authors conclude, would be to invite a collision. So they have come up with a set of proposals that they describe as a compromise between doing nothing (or tinkering with cosmetic change) and the binational state that many Palestinians, inside and outside Israel, advocate.

A binational state, they believe, is a non-starter, given Israel's raison d'etre as the homeland for world Jewry. The authors also question Israel's self-description as "Jewish and democratic", arguing that "the Jewishness of the state has been maintained more forcefully than its democratic character." They suggest policies that would enhance both the collective and individual rights of the country's hefty minority, arguing that Israel's Palestinians should not only be recognised as a fully fledged national group, but should exercise autonomy in certain cultural areas. Palestinian citizens should be nominated to positions of responsibility in all parts of the government bureaucracy. And their overall economic conditions should be improved through long-term development plans and fairer financial allocations to Arab municipalities.

Binyamin Netanyahu, the prime minister, says he recognises that Arab Israelis need to succeed if the economy is to thrive. To ignore the importance of this is to risk a wider collision in which Jewish Israelis see a potential enemy in each new Palestinian baby and Arab Israelis grow ever more militant with each new humiliation.

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New cinema

A movable feast

Woody Allen's new film is one of his best



Acid tongue

NOSTALGIA isn't what it used to be in "Midnight in Paris", and neither is Paris. During the musical montage of city scenes at the beginning of Woody Allen's new film there are more cars than people in most of the shots. When the francophile hero, Gil Spender (Owen Wilson: superb), reminds his future mother-in-law that Ernest Hemingway called Paris in the 1920s a "movable feast", she grumbles: "With this traffic, nothing can move." Gil is visiting the City of Lights with Inez (Rachel McAdams, pictured), his bride-to-be, and her obnoxious parents. Inez, who has inherited her mother's acid tongue, uses it on her hapless fiance whenever he suggests that he might be happier here than in Malibu, writing novels instead of the high-priced screenplays that have so far enabled her family to overlook his neurotic mannerisms, which strangely recall those of Mr Allen.

The writer-director's 41st film pretends to debunk the illusions of nostalgia, but it puts the argument against "the golden age syndrome" in the mouth of a pedantic ass (Michael Sheen), who is politely cut off at the knees by a lovely museum guide (France's first lady, Carla Bruni). In short order Gil is transported in a magic cab to a smoky, underlit Paris where it is always just past midnight, some time in the 1920s.

Because this is a satirical comedy, the present-day characters get the best dialogue while the denizens of the golden age are reduced to cliched one-liners about their own history-book images. Only Scott and Zelda Fitzgerald (Tom Hiddleston and Alison Pill) are credibly fleshed-out, as a warning about what will happen if Gil marries Inez. Gil's adventures in the past, including a love affair with Picasso's mistress (Marion Cotillard), eventually supply him with one sensible anti-nostalgia argument ("These people don't even have Zithromax!") but do nothing to cast doubt on the superiority of his new friends to his future family, who are unmistakably Californians. (Mr Allen's first time-travel fantasy, "Sleeper", posited a future dystopia that is a surreal vision of California.)

Instead, the discovery that each generation has its own nostalgias ends up fuelling a bittersweet farce of a plot, with side-trips to the *Belle Epoque* and the Versailles of Louis XIV. "Midnight in Paris" is a movable feast for fans of Woody Allen, and suggests that, at 75, he is enjoying a continuing renaissance.

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Garret FitzGerald

Garret FitzGerald, statesman, philosopher, journalist and lover of numbers, died on May 19th, aged 85



IF YOU had the good fortune to sit next to Garret FitzGerald at dinner-wrapped round by his natural warmth and curiosity, as well as numbed by the sheer volume of Dublin-tinctured words that tumbled out of him-you might learn many dozens of mind-bogglingly arcane facts. The quickest way to fly from Reykjavik to Vilnius in 1960, a skill he had honed in his first proper job as an analyst for Aer Lingus; the route of the now-defunct railway from Farranfore to Reenard via Cahersiveen, the fruit of his love of all train timetables; the relative popularity over time of his own Fine Gael party and the rival Fianna Fail in county councils the length and breadth of Ireland, derived from an obsession with opinion polls so immense that journalists were cautioned not to mention them; and the precise geographical pattern of the decline in the use of Irish between 1770 and 1870, compiled from old census volumes which he would prop on the car dashboard when being driven, on constituency visits, from place to place.

What modesty would restrain him from telling you-even in the 674 small-print pages of his autobiography-was the precise route by which Ireland, while he was cheerfully inhabiting the corridors of the Seanad and the Dail, moved away from sterile, irredentist sectarianism to become a more open and tolerant place; how the sombre dominance of the Catholic church began to recede from the country's moral life; how Ireland opened itself alike to Europe and to foreign investment, eventually finding it could leap off like a tiger; and, most wonderful and difficult of all, how North and South began to accommodate and make peace with each other, to such a degree that as he lay dying Queen Elizabeth was in Dublin Castle, trying out a line of Gaelic.

His own contribution, because it was the start of these processes, often looked like failure. His referendum to amend slightly the law on abortion was shot down, his referendum to bring in divorce resoundingly defeated; but he had succeeded in broaching the subjects in a civil way. On Northern Ireland, the 1973 Sunningdale power-sharing agreement swiftly collapsed, and his New Ireland Forum, in which constitutional parties from both sides were to meet and talk together of the pluralist, inclusive Ireland he longed for, was ruthlessly scorned by Margaret Thatcher. ("Out, out, out," she cried, demolishing all its proposals one by one; it wasn't *what* she said, he reflected later, but the tone in which she said it, so sharp and condescending.) Even the Anglo-Irish agreement of 1985, in which Britain acknowledged for the first time the Republic's interest in the North, was pictured by unionists as betrayal and by terrorists as encouragement. In fact it was a small, determined step towards the Good Friday agreement 13 years later.

A mislaid overcoat

He had the ideal background for conciliation, with a Catholic father from the South and a Protestant mother from the North (though it was she who taught him his catechism, forbearing only to instruct him how to sign himself at the gospel). Sectarianism was so foreign to him that when he met rank prejudice, he often burst out laughing. Politics was in his blood, his father having been in independent Ireland's first government in 1922; though he himself wandered into it from academia, reluctant to give partisan speeches in the open air or at dance halls, and quite inept at the plotting and manipulation so dazzlingly displayed by his Fianna Fail nemesis, Charles Haughey. Though he was foreign minister from 1973-77 and taoiseach twice, in 1981-82 and 1982-87, he remained somehow an innocent, mislaying as he travelled overcoat, pyjamas, watch; and not realising, so carried away was he with his theories for redistributing wealth in Ireland, that to put value-added tax on children's shoes might spell suicide at the polls.

Economics was a relatively late interest. He said he learned it at the *Irish Times*, where he wrote to the end of his life a Saturday column full of figures under the pen-name "Analyst". Over 50 years, he reckoned, he produced 2,250,000 words for the *Times* (besides providing copy, briefly, for *The Economist*). History and French were his degree subjects, and his verbosity in French a source of pride. He embraced the European Economic Community not just because it let Ireland reach over Britain to the world, but also because it gave him the excuse, before meetings in Brussels, to discuss with Francois Mitterrand some puzzling *lacunae* in the Catholic intellectual tradition of 19th-century France.

He was tender and naive, losing his life-savings on an unwise investment in 1992; yet he was also tough. Meeting the families of IRA hunger-strikers in the 1980s, he would be sympathetic as ever, but would never let himself be swayed by terrorists or "crawthumpers". Though mocked as otherworldly, he stuck to his crusade for a "new Ireland"-reunified or not, as the majority in the North wanted it-in which Catholic and Protestant identities would be equally celebrated. For, when all was said and done, he was a statistician first; and when shown any air-traffic controller's chart he could tell, to a high degree of accuracy, that at such-and-such a time and place the different flightpaths, no matter how divergent, were bound to cross.
